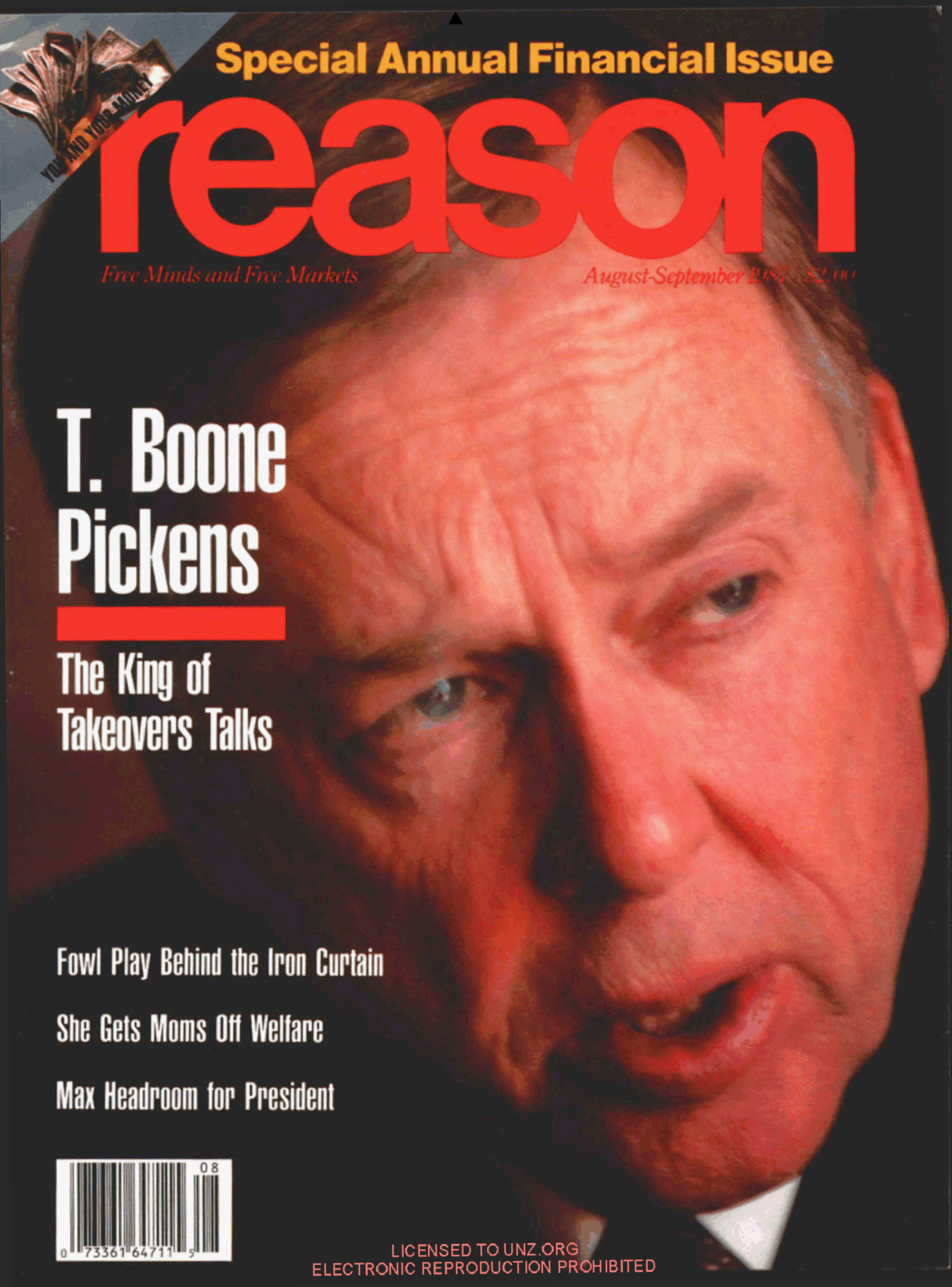

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- sleep disturbances
- difficulty in concentrating or remembering
- physical pains that are hard to pin down
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- a downhearted period that gets worse and just won't go away
- frequent or unexplainable crying spells
- a loss of self-esteem or an attitude of indifference

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Free Minds and Free Markets

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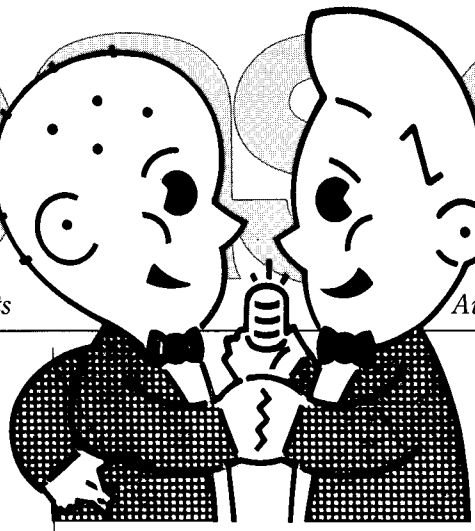

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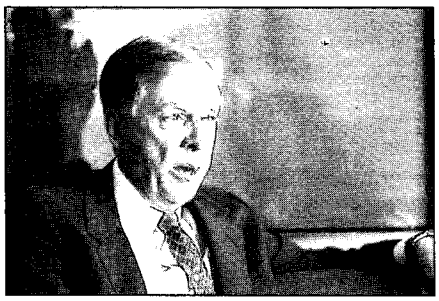

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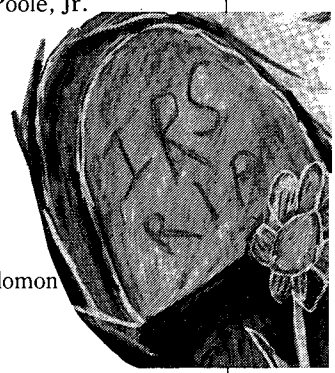

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upfront

No Vanna White Photos, But...

Though not yet as ubiquitous as *Weekly World News*, whose health aperçus are invaluable to those of us too busy to read the *New England Journal of Medicine,* REASON is infiltrating your local newsstands.

Like most journals of opinion, REASON relies on paid subscriptions for the preponderance of its readership. But we also advertise our wares at a growing number of corner stores, thanks to our new newsstand distributor, Eastern News.

Headquartered in New York City, Eastern is a prize middleman for thinkoisie publications; other titles it handles include *Foreign Affairs, The Nation, National Review, Wilson Quarterly,* and *American Heritage.* Since taking over the magazine's newsstand distribution with the March issue, Eastern has extended the REASON imperium to well over 300 retail outlets.

While we're on the shelves at a few national chains—Waldenbooks, in particular—most of REASON's public appearances are at independent bookstores, usually in metropolitan areas. Our top five sales states are California, New Jersey, New York, Massachusetts, and Illinois.

Overseeing REASON's dissemination is Marcia Sacharow, an old (but remarkably youthful-looking) pro entering her second decade in the magazine business. After stints with publishing giants Fairchild and Ziff-Davis, Marcia worked at *Playgirl* (which, in one of the most astonishing reversals of employment in print world history, she left for REASON when we invaded Santa Monica last summer).

Dumping Warren Beatty for T. Boone Pickens may strike hedonic readers as a mite odd, but Marcia waxes optimistic over REASON's potential. "There are a lot of people out there who should be reading REASON but don't know about it," she explains. "The market is there. We just have to get the magazine in people's hands."

Which is what Eastern is trying to do. And if any of you readers want to politely mention to your favorite magazine store that you'd like to see it stocking this title, of course, that's all right (or pester and harass...).

Flinging himself into the pack of fools and knaves traipsing the country for votes is the skeletal person of '60s comedian Pat Paulsen. The wispy Smothers Brothers sidekick tossed his hat in the ring the other day, amid little fanfare.

I, for one, now have a candidate in the Democratic primaries. (Assuming Al Smith write-ins are void.) Paulsen neatly sidestepped the Gary Hart love-trap by admitting that he had been womanizing "for some 20 years now." He summarized his approach to governing: "The best way I see is to mind my own business and not interfere with people and creatures and try not to make them miserable."

On a more coercive note, sharp-eyed readers in Iowa and New Hampshire report an invasion of well-tailored, zombie-like men who are accosting the sturdy citizens of the Hawkeye and Granite states in their schools, stadia, even at lunch counters. Eyewitnesses say the aliens, though they appear friendly, threaten to steal listeners' property and ship their children to exotic lands, perhaps to die. Linguists note that the creatures speak a form of pidgin English, the bulk of it unintelligible except for repeated, reverent invocations of "the future." REASON promises to follow this bizarre story, unpleasant as our research may be.

—Bill Kauffman

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Foreword by Samuel Motsuenyane

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letters

Aid to "Freedom Fighters"? The Debate Goes On

I must say that I enjoyed the four-way debate on the Reagan Doctrine between Messrs. Layne, Carpenter, Beilenson, and Wheeler (June). I personally believe that taxes are basically immoral and our government should not be in the business of selling arms or giving handouts to other countries or groups of individuals. Mr. Wheeler advocates the use of other people's money (taxes) in his crusade against the Soviet Union. It apparently does not concern him that some taxpayers (probably the majority) would not approve of this.

If people like Mr. Wheeler wish to help the so-called freedom fighters in Nicaragua, let *them* take the financial risk by donating their own hard-earned dollars to the cause. I, for one, would prefer that they and our government leave their hands off mine. I feel that I am a better judge of what my money should be used for.

Thomas H. Hazard
Cortland, NY

HAVING SEVERAL PEOPLE DISCUSS a major question is an excellent idea. I hope REASON will use that format more often. However, in the discussion of the Reagan Doctrine, where were the libertarians?

Where is there any understanding that most of the more than 150 "sovereign" governments of the world's countries are outrageous and hardly worth the powder to blow them all to hell? What real red-blooded libertarian would be happy with the present governments of El Salvador, Honduras, Guatemala, or Mexico (with that of Costa Rica barely tolerable) about which Wheeler is so concerned? He says nothing is worse than Nicaragua? In what world does he live? How about Paraguay or Chile?

There are better ways to empty that Marxist rhetoric of all content than the violent means of which Beilenson and Wheeler are so fond. Apparently they have little faith in the politics and economics they say they believe in. Or are the socialists correct after all—that there is no way capitalism can raise the level of living of the hundreds of millions in the Third World, and therefore arms must be used?

Not only has a military policy failed to turn Nicaraguans against the FSLN, it has merely shown that the capitalist U.S. government will act just as Comrade Lenin said it would, it has harmed constitutional government in the U.S.A., and it aids and abets the militarization of our political climate.

There are greater dangers to worry about than a Kremlin-directed international Commie subversion plot. The militarism fostered by the governments of the U.S., France, Israel, Iran, Iraq, Libya, Ethiopia, and welcomed by so many governments in black Africa, the better to keep their people in line, is a far greater menace precisely because it comes clothed in the rhetoric of patriotism and "hanging tough," rather than as a foreign "red menace."

Laurence G. Wolf
Cincinnati, OH

CONCERNING THE DISCUSSION of the Reagan Doctrine, there are two amazing phenomena in the American foreign-policy ideology that I would like to point out.

American intellectuals, who completely failed to work out a philosophy of a foreign policy, have this cute way of worrying, "Will they like us?" It sounds like a teenaged girl saying, "I saw this really cute guy yesterday—I wonder if he likes me?" Well, frankly, my dear...it doesn't matter. We do not need other nations to like us, we need them to do business with us. If we do good business, they will like us. But anyone who targets the United States must know that he stands a chance of being badly hit by us. Self-defense is what the government is for—and nothing else, probably.

Since I come originally from Poland, I can observe the American view of the Soviet Union with a special curiosity. Americans are subconsciously aware of the fact that

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letters

the long-term goals of the Soviet Union require the destruction of the United States—and Americans seem to be quite paranoid about that, not knowing what to do.

Now the second thought. Notice how the Soviet rulers always assume that other countries are flexible and can be changed at will, while the Soviet Union remains the constant factor. And notice how it is exactly the opposite for the United States. Well...why? I have my answer, but I would like to hear other ones.

Krzysztof Ostaszewski
Louisville, KY

THANKS FOR THE FINE DEBATE on the Reagan Doctrine. I'll wager that a lot of us who were sitting on the fence have landed on solid ground.

Conrad Speeder
Redwood City, CA

Why No Hooray for ERA

Joan Kennedy Taylor's article on the late Equal Rights Amendment ("Remember the Ladies," May) gives rather short shrift to conservative opposition to ERA, overlooking the peril the ERA posed to the right of private association. Everyone agreed that ERA applied to government or "state action." Everyone agreed that it did not apply to purely private action or association. Unfortunately, there was little agreement about where the boundary line should be drawn.

For instance: an organization's exemption from taxation is a legislatively granted privilege. Under existing constitutional law (the Bob Jones University case) the Supreme Court has held that the tax exemption, and the deductibility of contributions, could not be accorded to a private school which disallowed interracial dating. Could such privileges, under the ERA, be conferred upon a college that confined its student body to one sex only? To a church which disallows women in its priesthood?

Another example: under ERA, could a state issue a liquor license to an American Legion post, whose membership is disproportionately of one sex? The feminist movement scornfully rejected "separate but equal," so the existence of a women's auxiliary with equal drinking privileges could not be advanced as a defense. Nor could token female veteran membership, since

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the organization (necessarily) exhibits a clear case of "disparate impact" and a long-standing pattern of male predominance.

These were not simply conservative bugaboos. The militant feminists repeatedly declared that such things as single-sex colleges and discriminating churches and license holders could not be allowed to exist beyond the reach of ERA. Adoption of ERA would have struck a mortal blow at the right of citizens to associate together peaceably without government intrusion.

John McClaughry
Concord, VT

THE EQUAL RIGHTS Amendment as last proposed had three sections. Joan Kennedy Taylor apparently spoke only to Section 1: "Equality of rights under the law shall not be denied or abridged by the United States or by any State on account of sex." It's hard to disagree with the intent of that section. And Section 3 merely specified that the amendment would take effect "two years after the date of ratification."

In my opinion—apparently shared by growing numbers of people alarmed by any change that, in Taylor's words, would expand the power of government—the proposed amendment contained an obvious trap as Section 2: "The Congress shall have the power to enforce, by appropriate legislation, the provisions of this article."

Taylor's assertion that the article "would invalidate laws, not create them" seems not only to ignore but to contradict Section 2, which I suspect rightly scared off a lot of conservatives and libertarians. I think it likely that the amendment would have been adopted had not this loaded midsection been included, and I'm wondering who so cunningly implanted it.

William B. Root
San Diego, CA

Does Freedom Follow the Facts?

Professor Friedman can't be serious ("Where Are We on the Road to Liberty?," June). I guess he contends that the climate of opinion has shifted in favor of capitalism *not* because of *ideas* or *arguments* (even his own) but because of *facts*, raw datum all by itself. The facts, however, demonstrate that a favorable *intellectual* culture

letters

is a necessary precondition to any social change. Where was "the extraordinary force of factual evidence" during the Great Depression? While America suffered 30 percent unemployment, it also suffered what Eugene Lyons aptly termed the "Red Decade."

The examples could be multiplied indefinitely, but I will content myself with two pieces of advice: (1) Until or unless the right of an individual to pursue a profit is regarded as an *ethical* absolute, some form of collectivism or socialism is inevitable, even if the free market enjoys a consensus regarding its practicality. (2) Do yourself the favor and read Leonard Peikoff's *Ominous Parallels*, whatever nonsense REASON has published about it (Review, Feb. 1983).

J. S. Valliant
Del Mar, CA

MILTON FRIEDMAN'S article tackles the depressing fact that the astounding change in the climate of opinion and ideas doesn't translate into what he calls "the world of practice" (which I take to mean *political* practice). However, it does translate into economic practice, into a steadily growing "underground" economy in most countries. I see some hope in that fact, not only because it means people are quietly rebelling against government, but because it means they are giving up faith in it. The latter may be more important in the long run.

Professor Antonio Martino of Rome University has made the point that the more the underground economy grows, the more difficult political *dirigisme* becomes. The Italian Bureau of Statistics got furious with him when he said their figures were silly if they did not take the underground economy into account—which they couldn't, since they did not officially admit its existence. They do now, but since they cannot know the precise scope of it, the politicians are becoming aware that their "planning" is mere guesswork. In Scandinavia, economic practice is getting more and more Italian, which means that these extremely homogeneous countries are getting more and more difficult to govern.

What happens is, as Milton Friedman says, that people vote for their own benefit. But next, they descend into the underground economy and pull the rug out from under the politicians by acting economically contrary to the policies they have voted for. Illogical as this behavior may seem, it is perfectly "rational"—in both instances they are acting in their own self-interest.

Where this will all end, I do not know. I share Milton Friedman's long-term optimism, except that the time lag is such that before the prediction comes true, we may all be dead.

Ole-Jacob Hoff
Tjolme, Norway

Privatization Proposal Could Fly

I read with considerable interest the item "How to Unsnarl Air Traffic Jams" (Trends, April). Your proposal of an organization patterned after Aeronautical Radio Inc. (ARINC) is eminently workable and would, almost by definition, provide a higher level of service while being more cost effective than the existing arrangement.

The inevitable comments about short-cutting safety-related costs are completely unfounded. ARINC owns and operates the high-frequency radio facilities that carry operational *and* air traffic control communications in the U.S. Flight Information Regions outside the continental United States. This vast area covers much of the Pacific as well as key sections of the north and south Atlantic.

A pilot flying in one of those areas (even a military pilot in routine situations) receives ATC instructions from a radio operator employed by ARINC. No short cuts are taken, and numerous redundant and back-up systems are employed, as well as creative techniques to ensure end-to-end integrity of the communications. On the other hand, scrupulous attention *is* paid to costs.

The key factor, I believe, is that management is responsible in a real and immediate sense to the users of the systems ARINC implements and operates. The major users

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Playing God in Yellowstone

Recent works have criticized government policies which are harmful in human terms. Now environmentalist Alston Chase's *Playing God in Yellowstone* challenges the Park Service for what it does to wildlife.

The white-tailed deer, mountain lion, bobcat, and other major species have been driven from the Park, and the Rocky Mountain grey wolf has been pushed to extinction.

Confused about the role of man in nature, Chase argues, environmentalists and the Park Service have embraced a misguided notion of "ecosystems management," which neither protects wildlife nor makes the Park what it should be, "a place where nature and culture mix, a community of animals and people."

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Jonathan M. Wineberg
Rolle, Switzerland

Mr. Wineberg is the former director of message services and senior director of data services for Aeronautical Radio Inc.—Eds.

Local Pols Step in Where Angels Fear to Tread

Your June Brickbats contained a segment on the ridiculous snowplowing incident in Fairfax County, Virginia. This county is a perfect example of local government run amok, especially when it comes to zoning.

Cases that haven't made the newspapers include churches denied building permits because they would be an increased burden to busy roads. Some churches have been allowed to build on the condition that they don't have their weeknight men's meetings. Their religious activities are restricted to those things that the county zoning board deems legitimate ministries.

That's right, an unelected board is now determining what the "ministry" of the church includes. Churches have been threatened with seizure if they actually bring in people off the streets to feed them. Horrors. In another case, a church is operating a Christian school without a special-use permit. They are under constant attack and have retained counsel.

Craig C. Markva
Springfield, VA

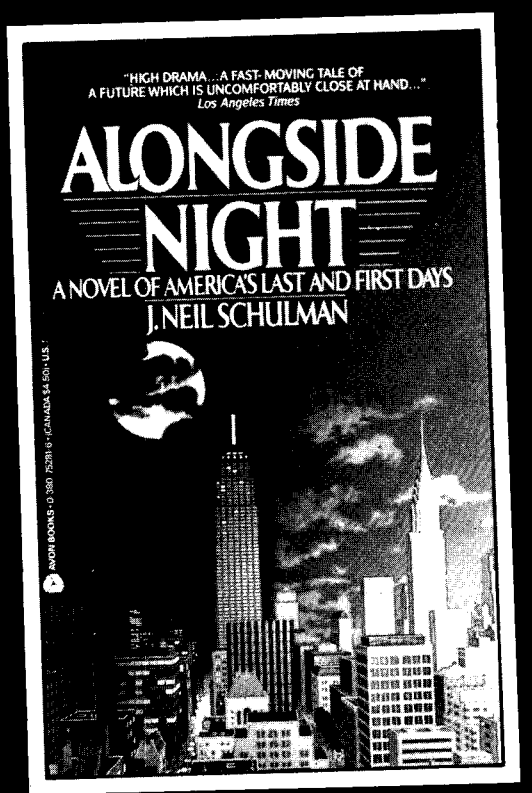
Heir-Finding: Get Rich Slow

Thank you, Mark Skousen, for your column on get-rich schemes (Investments, May). I bought one of those books last year and actually started finding heirs to unclaimed property. Two thousand dollars an hour? Hah! Although I am about to make a little more, I have so far only put $279 in the bank as a result of heir-finding.

An operative of an investigative company that buys the state of California's list ($500) told me that they regularly find that any account on that list worth more than $7,000 is recovered shortly after the list is published and before the investigative company can get in on it. If the amount is unclaimed property rather than an estate left through a will, California prohibits investigators from charging more than 10 percent of the amount.

Figure it out. It usually takes more than an hour to find and contact an owner of unclaimed property, and it takes the state two months to process the claim. Add to this the reality that you have no way of knowing whether you are searching for someone who has already gotten their money recovered or who is unfindable and has no heirs. I have revised my expectation of how much I can make an hour.

Miles Fowler-White
El Cerrito, CA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By Ted Nicholas

New handbook shows how you can beat tax reform, limit your liability and avoid double taxation.

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Now you can limit your liability and avoid double taxation. These important advantages and many others are now available to you when you form an "S" Corporation.

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Let's look at the facts. There are now two tax rates: 15% or 28%. Compare this with the maximum corporate rate of 34%. After a phase-in period these rates are fully effective by 1988. The individual rate has a six percentage point advantage over the corporate rate!

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And you can operate even a one person business as an "S" Corporation. You would have all the benefits of a corporation. *There is no income tax whatsoever at the corporate level.* All you need to pay is the lower personal rate.

That's why there has been a surge of "S" corporation formation in recent weeks. Thousands of entrepreneurial men and women have already taken advantage of this strategy. If this appeals to you, a new publication makes it clear and simple. And it will answer virtually all your questions.

Ted Nicholas, author of nine books, has just completed a new book, "The 'S' Corporation Handbook." This book contains everything you need to know about maximizing the benefits of an "S" Corporation. Simple-to-use forms are also included. Whether you file yourself or through an accountant or lawyer the book will make things easier and simple, regardless.

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Free the Banks—or Else

Robert W. Poole, Jr.

Several years of fiscal sleight of hand were demolished late in May, when Citicorp shocked the banking world by setting aside an extra $3 billion to cover potential losses on foreign loans. It is no longer possible for U.S. banks to go on pretending that massive loans to Third World countries will ever be repaid at 100 cents on the dollar.

Indeed, after watching Citicorp's stock rise in the week following its dramatic announcement, several large banks quickly followed suit, even though writing down loans means record short-term losses. Competitive pressures may now force much weaker institutions such as BankAmerica to take the same step—raising the specter of a new round of bank failures.

Even before these recent changes, bank failures had reached record post-Depression levels. Nearly 20 percent of all banks insured by the Federal Deposit Insurance Corp. operated in the red last year. So the risk of another major bank failure, such as Continental Illinois's near-bankruptcy—and federal bailout—in 1984, is very real.

Now a politician's first reaction to a riskier climate is to slap on controls in an attempt to forestall bad things. Yet if we are to avoid a banking bloodbath, that's precisely the *opposite* of what is needed at this point. Ill-conceived banking regulations got us into this mess, and only rapid deregulation can get us out of it smoothly.

American banks are in such dire straits today because they failed to diversify their risks. Major money-center banks overextended themselves in risky Third World loans, while smaller banks in the Midwest and the Southwest grabbed up farm loans and oil loans. Bankers aren't stupid—but more-sensible options were closed off to them...by regulations.

Banks' bread and butter used to be making loans to businesses. But as other institutions have sold businesses on the advantages of commercial paper and junk bonds, the banks have lost about half of their business-loan market. Meanwhile, a huge financial-services industry has been evolving. Players as diverse as Sears, Ford, and Merrill Lynch now compete for banks' customers in areas forbidden to banks by federal regulations—insurance, mutual funds, and securities underwriting. And foreign banks, subject to fewer restrictions, have made major inroads in the domestic market. One of the few growth areas left for U.S. banks was Third World lending.

At the same time, geographical diversification within the United States has been frustrated by a patchwork of laws that limit branch banking. In Illinois, a prohibition on statewide branching prevented Continental Illinois from building up the kind of solid retail network that is one of Citicorp's strengths. So its parent company looked far afield for energy loans—and got wiped out. Similarly, the McFadden Act prevents interstate branching, so banks in a farm state like Iowa or an oil state like Texas are extremely vulnerable to downturns in those businesses.

Banks in Europe and Japan are not hobbled by these and other U.S. controls and restrictions. They can take equity positions in businesses, for example; there is no artificial separation between commercial and investment banking. Nor are they saddled with restrictions on branching in their home countries. Even in this country, they are generally allowed to operate with greater freedom than domestic banks. Consequently, it should come as no surprise that today nine of the world's top ten banks are Japanese. Ten years ago, BankAmerica and Citicorp were at the head of the pack.

Even without the current writing-down of foreign loans, the threats to U.S. bank solvency would be very real. Banks are losing market share at home to new financial supermarkets and abroad to less-regulated Japanese and European banks. But now that Citicorp has called the industry's bluff on accounting for foreign loans, the need for reform is all the more urgent.

Banks must now be given the freedom to compete, across the board, so that they can diversify and spread their risks. That means the 1933 Glass-Steagall Act (which put a wall between commercial and investment banking) has to go. So must the anachronistic 1927 McFadden Act that limits banks to their home states.

Meaningful deregulation has been stalled because of special pleading from small-town bankers, insurance firms, securities dealers, and investment bankers. All are desperate to retain their present protection from real competition.

Their pleas must be ignored. These businesses have no right to be exempted from the laws of the marketplace. There is ample evidence (for example, from New York State) that well-run small banks can compete with large ones. Nor is there any reason why Prudential and Chase Manhattan, along with Sears, shouldn't be free to compete all-out in selling insurance and other financial services.

But Congress should also face the sobering fact that the money is simply not available to handle another major debacle. In thinking about deregulation versus the status quo, Congress should contemplate the possibility of the simultaneous bankruptcy of BankAmerica and Manufacturers Hanover, for example.

Phony-baloney accounting of shaky loans can no longer hide the precarious condition of a number of banks. Freeing our banks to compete and diversify their risks has become a matter of utmost necessity.

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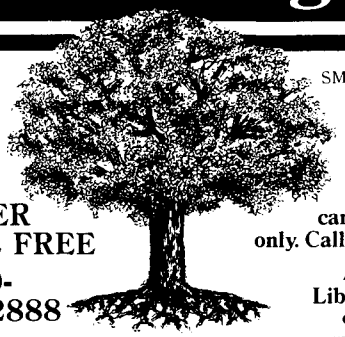

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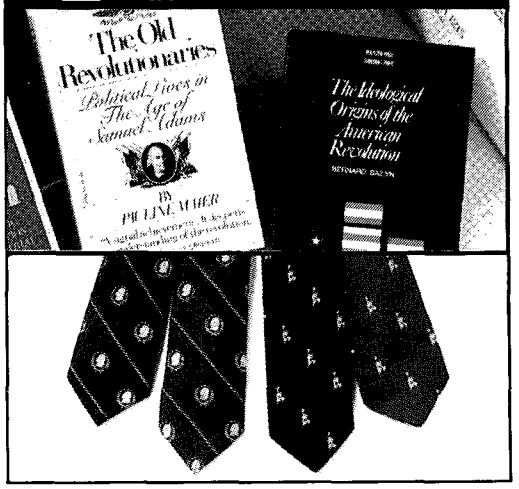
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editorials

Getting Clubbed

Lucy Braun

I'm not a big fan of men-only clubs, and not just because I can't join them. Seems kind of weird to me that a bunch of businessmen, for example, would want to have lunch together and not let businesswomen join them. But if that's what they want to do, that's their prerogative.

Or so it should be. But in May, the Supreme Court ruled that states can force private, all-male clubs to accept women as members. The justices didn't come right out and admit that they wouldn't uphold the right of individuals to privately associate. Instead, they simply restricted the definition of "private" association. And the standards they adopted to judge how "private" a private club is are arbitrary and dangerously vague. The ruling paves the way for the government to encroach upon yet another facet of our lives.

The case involved the Duarte, California, Rotary Club, which in 1977 shored up its lagging membership by admitting women. This violated the bylaws of Rotary International, which expelled the chapter. The club took its parent to court—and won.

The Supreme Court ruled that the First Amendment protects our freedom to associate in intimate or private relationships. But "the relationship among Rotary Club members," decreed the justices, "is not the kind of intimate or private relation that warrants constitutional protection." The club's activities are thus sufficiently "public" to be subject to state antidiscrimination laws. However, the justices didn't explain their twisted interpretation of "private." They simply said they'll judge each organization on a case-by-case basis, depending on "size, purpose and selectivity."

Consider these criteria:

- Size. The court said the Rotary Clubs have large and fluctuating memberships. So what? So do the Boy Scouts—are they next? What does size have to do with it?
- Purpose. The court said Rotary Clubs are linked to business and therefore covered by antidiscrimination laws. But the clubs are primarily service, not business, organizations. That they provide forums for businessmen to meet doesn't differentiate them from gatherings of fraternity alumni, which are (so far) legal. And if *business* groups can't choose members on the basis of sex, what about the new all-*women* business clubs?
- Selectivity. Rotary International argued that its highly selective membership entitles it to greater constitutional protection than that afforded less selective, more "public" groups. The Court disagreed. But if neither selective nor nonselective clubs are "private," how is selectivity a factor?

These criteria don't distinguish private from public. But they do give the government leeway to decide that just about any private club engages in "public" activity and so forfeits the right to govern itself.

Sure enough, three weeks later the Los Angeles City Council voted 12-0 to forbid private clubs from excluding members on the basis of sex, sexual orientation, race, color, religion, ancestry, national origin, or disability. The ordinance applies to clubs with over 400 members that serve regular meals, rent facilities, and charge nonmembers for attending meetings. Such clubs are by the council's definition business clubs—even if business never comes up.

The ordinance does let clubs keep "social" criteria for membership. But what does that mean? That people of a common religion can't get together because they might talk shop, or that minority entrepreneurs can't form support groups, but that clubs *can* exclude nerds?

Some people seem to think we should congregate only in nice little units that proportionally represent our society on every conceivable demographic basis. But that's obviously not what people want to do. And to *make* us do it is to take away the freedom that has allowed Americans to work and play together in relative peace, forming our own groups as we see fit. Besides, to paraphrase Groucho Marx, I wouldn't want to join a club that was *forced* to have me as a member.

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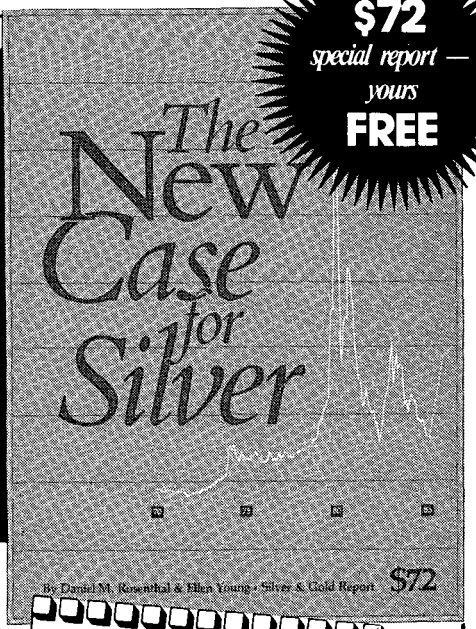

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brickbats

The thesaurus has been getting a workout in Oregon. The Oregon Adult and Family Services Division is looking for another word for "pregnant," one that a reader at the eighth-grade level could understand. The search is just one result of a new law requiring the division's brochures and forms to be written in plain English. Underground Grammarian Richard Mitchell wonders, "If you did unearth an eighth-grader who didn't know the meaning of 'pregnant,' which would you deem the better; coming up with an 'easier' word, or explaining the meaning of the one he doesn't understand?" Plain English strikes again.

Taxpayers who call the Internal Revenue Service's toll-free telephone lines with tax law questions get inaccurate or incomplete answers more than one-third of the time, according to a General Accounting Office survey. As usual, you get what you pay for. However, taxpayers are responsible for filing a correct return even if the IRS gives them incorrect answers. The GAO says the other two-thirds of answers provided by the IRS were accurate. Just evil.

Hoopla abounds in Fairfax County, Virginia, about a zoning regulation banning freestanding basketball hoops. Section 10-105 of the County Zoning Ordinance restricts "accessory structures" in front yards, so zoning officials ordered the Warner family to remove their hoop. Pink flamingos and birdbaths, which are considered statues, are permitted, however. The backboards are allowed only if they're attached to the garage or carport, making them part of the house. But that kind of backboard is less popular because a player going in for a lay-up might run into the garage. A small price to pay for maintaining neighborhood aesthetics.

Third World woes. Hundreds of students at a Bangladesh school attacked teachers and burned a school building while demanding the right to cheat during tests, reports the Reuters news service. Officials say the protests began when students walked out of an exam hall shouting, "We seek the right to copy!" and "Allow friends to help us!" Startled authorities asked the police to halt the demonstration, but the police refused, afraid of sparking protests in other test centers.

LET FREEDOM RING
PARDON ME, SIR, MAY I SEE YOUR BELL-RINGERS LICENSE? HAVE YOU REGISTERED WITH THE BUREAU OF PEALING & TOLLING? ARE YOU WEARING EARPLUGS IN ACCORDANCE WITH OSHA REG. 864-212.7? CAN YOU CERTIFY THERE ARE NO ENDANGERED SPECIES NESTING UP THERE? MAY I REMIND YOU TO COMPLY WITH ALL PROVISIONS OF NOISE ABATEMENT ORDINANCE 22-94B, SUBSECTION 33.1
BLAH BLAH BLAH

An ordinance in Palm Beach, Florida, requiring men to wear shirts while jogging has been found unconstitutional. The 11th U.S. Circuit Court of Appeals described the law, passed in the name of maintaining property values in the ritzy resort, as "a mere circumlocution for enforcing the town fathers' view of the proper fashion for personal dress." The court said even the "most creative imagination" couldn't accept the argument that the law was necessary "to protect Palm Beach real estate values by preserving the city's traditions of propriety and quality of life."

You have to give James Smithy credit for trying. The former paramedic fooled prosecutors into dropping check-forgery charges by faking his own death certificate. The slip of paper stated that the Chicago resident died of a drug and alcohol overdose. Smithy would have been home free except for the U.S. Census Bureau. The snoopers' computers selected his case at random for a study on deaths related to drugs and alcohol. Smithy got tripped up because officials discovered that while his death certificate was filed in July, he'd renewed his driver's license in October. Nice try anyway.

Illinois Gov. James R. Thompson was enraged when he heard a song written as part of a state-sponsored campaign to combat the spread of AIDS. The rap song "The Condom Rag," performed under the auspices of the Illinois Public Health Department, includes these lyrics: "Step one in being safe not stupid, is avoid contact of bodily fluids. Pardon the pun, it's in the bag. All you gotta do is the condom rag. And remember boys, don't be no dunce, only use that condom once. See it's easy and fun and it ain't a drag, groovin' and doin' the condom rag." Says Gov. Thompson: "Is that the kind of song you want to listen to with your child? People will think we have taken leave of our senses."

—Mark Edward Crane

MUZZY'S ECONOMIC REVIEW

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As examples of the unique and advanced concepts presented, look at the figure below, which demolishes both the spending "multiplier" concept as well as the so-called equation of exchange, MV equals PT. One needs only observe the excellent correlation between Current GNP and M 3 Plus (a measure of ALL the money and deposits in the United States) to conclude there is no spending "multiplier". Further, dividing Current GNP by M 3 Plus, you get almost a "constant" value for so-called money "velocity" over the past 40 years. The equation of exchange concept IS WRONG, but seeing "verification" in the real economic world shows the value of starting with "correct" economic theories in economic and financial analysis. (Thank you for HUMAN ACTION, Ludwig Von Mises).

Another economic myth laid to rest by the figure's data is that of "crowding out". Generally, there is NO "crowding out" of borrowers by U.S. Treasury borrowings. The reason is that the U.S. banking system, with the Federal Reserve the "lead" bank, almost always creates enough new money to make sure the Treasury's debt offerings are a complete sell-out. Thus, Federal budget deficits are both economically stimulative, and several years later, inflationary, that is, cause a general increase in prices.

Of direct interest, but not yet very obvious on the figure, is the fact M 3 Plus is increasing during 1987 at about ⅔ the rate of 1986, or about $240 billion/year in 1987 versus $400 billion/year in 1986. If this slower increase continues (which seems likely), there will be roughly a $160 billion "short-fall" in overall spending in 1987-1988, virtually guaranteeing an economic recession in time for the 1988 elections, and probably a 2-4% increase in the unemployment rate in the next 12-18 months. No, that isn't majority opinion presently, but that's what the monetary trends so far in 1987 are strongly indicating.

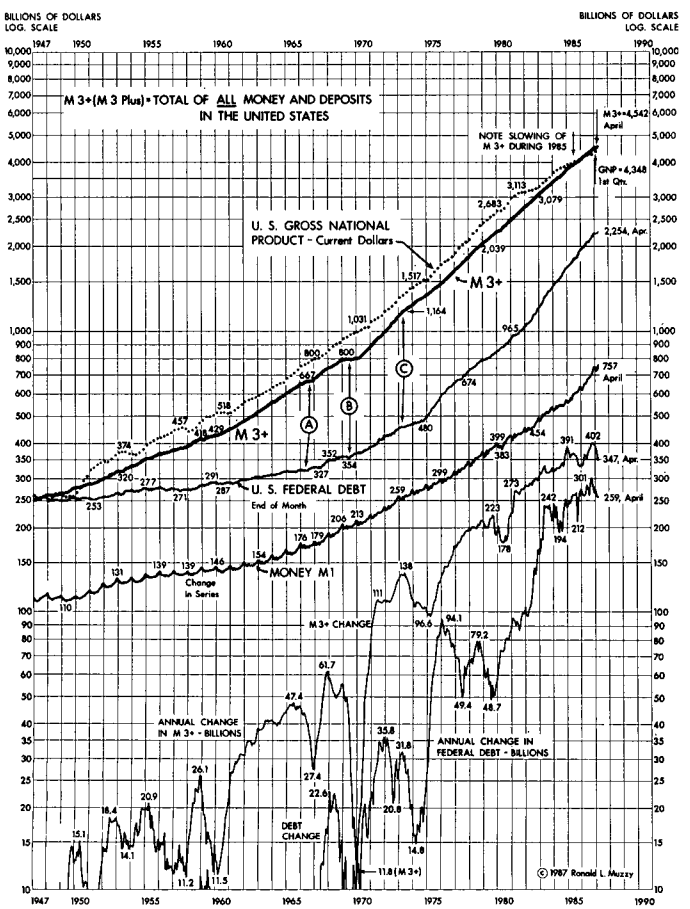
BILLIONS OF DOLLARS LOG. SCALE
M 3+(M 3 Plus)=TOTAL OF ALL MONEY AND DEPOSITS IN THE UNITED STATES
NOTE SLOWING OF M 3+ DURING 1985
M3+=4,542 April
GNP=4,348 1st Qtr.
U. S. GROSS NATIONAL PRODUCT - Current Dollars
M 3+
U. S. FEDERAL DEBT End of Month
MONEY M1
Change in Series
M3+ CHANGE
ANNUAL CHANGE IN M 3+ - BILLIONS
ANNUAL CHANGE IN FEDERAL DEBT - BILLIONS
DEBT CHANGE
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FIGURE 2 - CURRENT GNP, M 3+, FEDERAL DEBT, MONEY M 1, and ANNUAL CHANGE of M 3+ and FEDERAL DEBT: 1947 - 1987

The economic and financial analyses in Muzzy's Economic Review begin with the economic and monetary theories in Von Mises' masterful HUMAN ACTION, with extensions to understand our present fiat monetary system. The analyses and conclusions presented get to the "heart" of "what's really happening" in the economic and financial areas, enabling **YOU** to better understand what's happening, and thus make better investment and financial decisions. Also, the information presented, although "different," is readily understood, and the monetary totals easily calculated.

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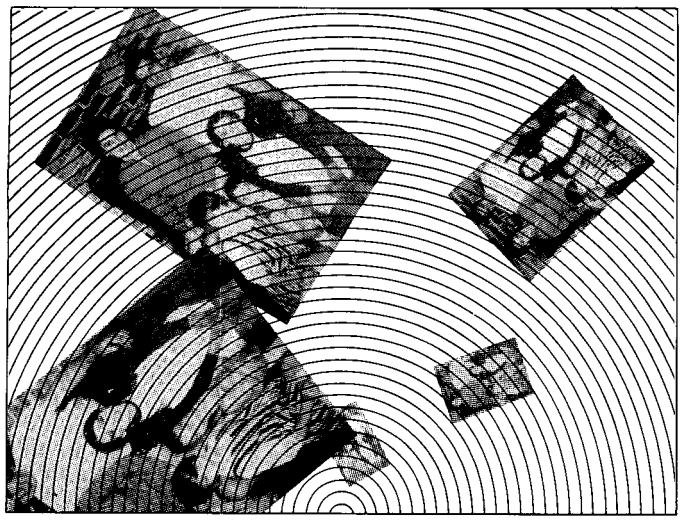


Vanishing Middle Class: A Statistical Magic Act

"The standard of living of the average American worker is declining steadily, and Congress and corporate leaders must act soon to reverse the trend." So writes *Los Angeles Times* labor columnist Harry Bernstein, echoing the cry of labor leaders and politicians across the country. An increase in low-paying service jobs and a decrease in high-paying manufacturing jobs, they argue, spells the end of the middle class. Their solution? More trade barriers to protect U.S. manufacturing industries from competitive imports. A closer look at their analysis, however, reveals a lot of smoke and mirrors.

Much of the hullabaloo centers around some research by Professors Barry Bluestone of the University of Massachusetts and Bennett Harrison of MIT. After comparing period from 1979 to 1984 with the period from 1973 to 1979, they claim to find an "alarming trend toward low-pay jobs." Their report, published by the Joint Economic Committee of Congress and touted by unions nervous about declining membership, is often cited in arguments for protectionism. But according to Bruce Bartlett, a policy analyst at the Washington, D.C.–based Heritage Foundation, the study contains several "critical errors."

"By comparing job growth between 1979 and 1984," notes Bartlett, "Harrison and Bluestone chose the two most extreme years possible, thus obscuring the long-term trend, which indicates no change in the distribution of jobs." As syndicated columnist Warren T. Brookes explains in the *Wall Street Journal*, this period covers "three Carter fiscal years that also included two recessions, the worst inflation in modern history and a massive 7 percent, two-year decline (1979-81) in average real wages."

Brookes and Bartlett also quarrel with Bluestone and Harrison's choice of price index to adjust the income data for inflation. By relying on an index "widely recognized by economists...to overstate inflation during the 1970s," says Bartlett, they understated workers' real incomes. When a more-accurate index is used, "the low-pay trend mainly disappears."

Bartlett doesn't deny that employment in manufacturing has fallen in recent years, while employment in the service sector has grown. That trend, he argues, is natural in developing economies—and isn't really the devil it's made out to be. The popular picture is of well-paid assembly-line workers being laid off and forced to take minimum-wage jobs flipping burgers. But service jobs aren't limited to fast-food or retail outfits; they include, for example, jobs in law, medicine, and computers. Brookes points out that over 40 percent of the jobs created between February 1986 and February 1987 were managerial or professional—the Labor Department's highest-paid category. "This," he observes, "is the largest year-to-year growth-share for top-paid jobs."

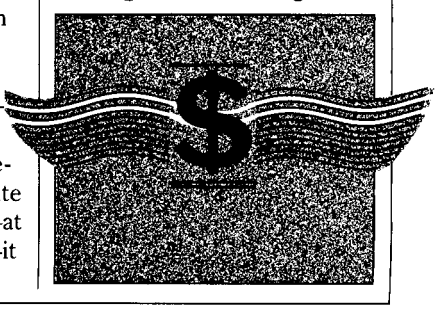
Harrison and Bluestone also overstate their case by lumping part-time workers with full-time workers. A much higher proportion of service-sector jobs than manufacturing jobs are part-time. The large number of part-time workers pulls down the average wage level, conveying the misleading notion that as the service sector expands, full-time workers' incomes are falling. When Bluestone and Harrison do separate full- and part-time workers—at the very end of their study—it turns out that less than one-fourth of all jobs created in 1979-84 were in the low-paid category, rather than the 58 percent claimed earlier in their study.

So, while employment opportunities shift around, the middle class remains essentially unchanged. A Census Bureau chart plotting the change in income distribution among Americans from 1960 to 1984 is as flat as the EKG of a dead person. Concludes Bartlett, "The middle three-fifths of the population, ranked by income, receive about 52 percent of total national income, a proportion that has been virtually unchanged since the Census Bureau began keeping such statistics in 1947."

There's No Such Thing As a Free Frequency

When recently departed (from office, not life) Federal Communications Commission chairman Mark Fowler suggested auctioning off chunks of the radio spectrum rather than allocating it through the current government licensing procedure, his proposal went nowhere. But the idea has traveled across the ocean and is abroad in Britain.

Margaret Thatcher's govern-



ment is talking up a new report by consultant Charles Jonscher, written under the auspices of the Department of Trade and Industry. Jonscher concludes that the market, not the bureaucracy, ought to divvy up the radio spectrum.

Currently, the airwaves are woefully misallocated, noted the report. For instance, giant British Telecom dominates the microwave spectrum, despite the obviously superior value the mobile communications industry places on each megahertz. (Jonscher estimates the value of an extra megahertz of frequency at £75,000 in the standard telephone industry but at £4 million in broadcasting or mobile communications.) Under Jonscher's scheme, as any Econ 101 student learns, he who values a property most would buy the right to it.

Not only does Jonscher advocate auctioning off segments of the spectrum, he wishes to privatize the auctioneer. Under his plan, a group of private Frequency Planning Organizations would be charged with allocating and policing the airwaves.

As *The Economist* points out, private bodies with an incentive to maximize profits would be likely to utilize new technologies to "cram as many users into their wave-banks as possible." Indeed, Jonscher estimates that "all conceivable needs" could be met for at least the next 20 years by allowing a radio-spectrum market to develop. (The state would also pocket 160 to 400 million pounds a year, for what it's worth.)

If Margaret Thatcher's track record is a reliable predictor of success, the Tories may again take the worldwide lead in laissez-faire.

If Rejected by the Supremes, Don't Despair

It's a free country—but just how free may depend on what state you live in. The Constitution is supposed to protect basic individual rights, but federal courts are sometimes willing to make exceptions—obscenity, for example, is not considered protected by First Amendment guarantees of freedom of speech and of the press. But if the federal courts choose not to protect certain rights, relief from the depredations of big government can sometimes be found at the state level.

The Oregon Supreme Court, for example, recently overturned a state obscenity law on the basis of the state constitution. The case involved Earl A. Henry, owner of an adult bookstore, who was convicted in 1982 of possessing and disseminating obscene material. The law under which he was convicted was based on federal standards of obscenity.

Represented by a lawyer from the American Civil Liberties Union, Henry appealed the case, arguing that the state constitution provides greater protection to free expression than does the federal Constitution. Article 1, Section 8, of the Oregon constitution states, in part, "No law shall be passed restraining the free expression of opinion or restricting the right to speak, write or print freely on any subject whatsoever."

The state's high court unanimously upheld the appeal. Writing for the court, Justice Robert

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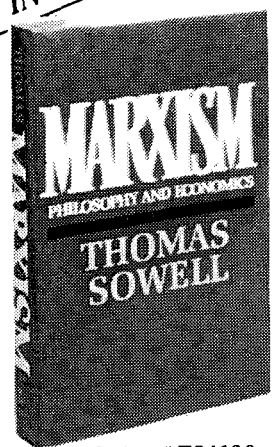

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C. Jones concluded, "In this state any person can write, print, read, say, show or sell anything to a consenting adult even though that expression may be generally or universally considered 'obscene.' "

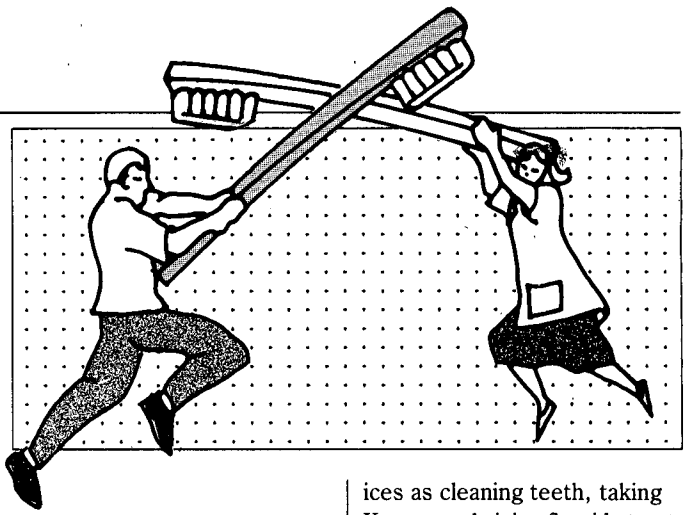
ACLU legal director John Powell told REASON that the organization has been pursuing a strategy for several years of relying on state constitutions and statutes to extend civil liberties. "It's picking up momentum as the federal courts delineate areas where they're going to continue to extend protection and areas where they're not."

State laws can be used to extend privacy protection beyond that recognized by the federal courts. In Minnesota, where a bill to repeal the state sodomy law failed, a lower court has declared the law unconstitutional under the state constitution. The case is on appeal, as is a similar case in Kentucky.

The ACLU also hopes to show that state search-and-seizure protections impose a limit on drug testing. And though the Supreme Court allows law enforcement authorities to examine personal or corporate bank records without a warrant, several states reject the practice.

"The Supreme Court has held that the right of privacy is largely focused on the home," explains the ACLU's Powell. "We've been arguing that [it] should be extended to where there's a reasonable expectation of privacy."

The shift in focus from the federal courts to the states can be viewed as a new twist on the old idea of states' rights. As California Supreme Court Justice Stanley Mosk says, "Today, states' rights are associated with increased, not lessened, individual guarantees."



Brushing Big Brother Away

For dental hygienists, dealing with government regulations can be as difficult as pulling teeth. But restrictions on their profession have recently been relaxed in at least two states.

Hygienists, who are licensed by the state, perform such services as cleaning teeth, taking X-rays, and giving fluoride treatments. In most states they are only allowed to function as assistants to dentists, but many are champing at the bit to practice independently, making more money while offering more-convenient and less-expensive service. Not surprisingly, many dentists, apparently fearing independent hygienists would take a bite out of their business, are resistant to the idea.

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Neither do cruise ship operators talk about seasickness. Daniel Kehrer, in his recent bestseller "The Cautious Investor's Guide to Profits in Precious Metals" writes *"...precious metals dealers are none too anxious to admit it, but counterfeit coins are a problem."* Silver & Gold Report calls fakes *"The Best Kept Secret of the Bullion Industry."*

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Keith Hernandez was pleased but were the sunglasses that special? Then came the miracle.

Miracle Glasses

I knew the glasses worked but I didn't realize its new power.

Julie draws lots of attention where ever she appears and has nothing to do with this story nor with Keith Hernandez.

By Joseph Sugarman

You may not believe this. I can understand. But as incredible as it may seem, the facts I present here are the absolute truth—just ask Keith Hernandez.

Keith Hernandez is the star first baseman of the New York Mets. About two months ago I published an open letter to Keith telling the sports press that Keith should wear our revolutionary new BluBlocker sunglasses. My reasoning was simple.

If Keith would accept my offer and wear them, it would draw attention to BluBlockers and we would sell a ton of them. We had to sell a ton of them. The BluBlocker sunglasses were costing us a fortune. By selling a large quantity, we could keep our prices low and still make a profit.

SPECIAL MEETING

Instead of sending Keith a pair, I arranged to meet him at Shea Stadium in New York on May 6, 1987 to have him try one on. He did. But what followed I never expected.

When he put them on and looked around Shea Stadium, he seemed impressed. I expected that. Most people, when they first put on a pair, can't believe their eyes.

BluBlockers filter out blue light which makes everything appear sharper, clearer and with a greater 3-dimensional look to it. Blue is the shortest light wave in the visible spectrum and focuses slightly in front of our retina which is the focussing screen in our eyes. By filtering out the blue in the BluBlocker lenses, our vision is enhanced and everything appears to have a 3-dimensional look to it. But there's more.

BluBlockers also filter out ultra violet or UV light from your eyes. Pollution is causing the atmosphere to lose its protective ozone layer letting more harmful UV light through and causing a dramatic increase in skin cancer and eye disease.

COULDN'T BELIEVE SHARPNESS

Regular sunglasses, without UV protection may be dangerous by causing our pupils to open wider thereby letting more of the dangerous UV light into our eyes.

Keith loved the BluBlockers. "I saw everything so clearly that I couldn't believe how sharp they made things appear. They felt good and I really did like them."

As Keith was wearing them, I took the picture shown above. I finished and as Keith and I walked off the field, I turned to him and said, "Keith, those glasses will bring you and your team good luck. You watch. You'll win tonight...and you'll have an evening you'll never forget."

SWORN STATEMENT

I have read the facts regarding my experience on May 6, 1987 with Mr. Sugarman at Shea Stadium and the statements made herein are the truth and happened exactly as stated.

Keith Hernandez

Keith Hernandez

I don't know why I was compelled to say that. But that evening, the Mets broke a losing streak and won a big game and Keith was named team captain—the first team captain in Met's history.

Keith now wears BluBlockers before every Mets game. "I'm not superstitious," says Keith, "but after one of the most incredible evenings of my career I can't think of a better pair to wear."

The rest is history. Keith wears BluBlockers all the time. He loves them. "I see clearer, sharper and I look great in them. The girls love them too."

BIG GUARANTEE

Obviously, I can't guarantee that BluBlockers will bring you the kind of good luck they brought Keith. But I can guarantee one thing. If you order a pair, you will see clearer, better and sharper than with any other pair of sunglasses you'll ever wear and you'll be protecting your eyes by blocking out the harmful UV light. BluBlockers will become the best pair of sunglasses you'll ever own.

BluBlockers come in two versions. One is an anodized high-tech aluminum pair with a flexible spring hinge that compares with many $200 imported frames and the second is our precision plastic pair. Both look identical to the pair Keith wears. There is also a high quality clip-on model that fits over prescription lenses. Each pair has high quality Malenium-99™ lenses which add to their clarity and sharpness. The lenses also have a hard, anti-scratch coating.

Each pair comes complete with a padded carrying case, instructions and a one-year limited warranty. If anything ever happens to your BluBlockers during that first year, just return them for a prompt replacement. Return instructions come with each pair.

I urge you to order a pair during our one-month trial period. When you receive your BluBlockers, put them on and notice immediately how everything takes on a 3-dimensional look. See how much clearer and sharper objects appear. Notice how comfortable the glasses feel and easily conform to your face and examine the quality of the frame.

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Last year, Colorado became the first state to pass a law allowing hygienists to open their own practices. The American Dental Association, claiming that the law endangers public health, is appealing a court decision upholding the law. Jeff Thompson of the Colorado Dental Association told REASON that one of the dentists' concerns is that patients won't know the difference between dentists and hygienists and will mistake a cleaning for "a complete oral examination."

Now, an experimental program in California may be the precursor of a deregulatory move similar to Colorado's. In the program, which was approved by the state in 1981 but took five years to get under way, 15 hygienists throughout the state are operating their own practices, which are monitored by a dentist and evaluated by several professors from three universities.

Nancy Chesler, a participating Los Angeles hygienist, notes that the services she offers can normally be provided by hygienists in a dentist's office without direct supervision. If a dentist is on vacation, for example, his hygienist employee can clean patients' teeth. Chesler offers more flexible hours than most dentists, starting at 7:00 A.M. and staying open late one night a week. "The goal of the whole thing is to give the patient freedom of choice," she says.

But that's not the goal of the California Dental Association, which is challenging the program in court. Although the CDA is arguing on procedural grounds, those do not seem to be at the heart of the group's objections. In an editorial in the CDA's magazine, the association's executive director, Dale Redig, declared that "there is a war going on in our profession." He charged hygienists with having a "master plan" to achieve total independence from dentists, and asked dentists, "Which side of this war are you on?"

Not all dentists are ready to man the barricades. Hygienists refer patients needing dental work, and one Los Angeles dentist who has agreed to take such referrals under the experimental program told the *Los Angeles Times* that hygienists may be better than dentists at persuading people to seek dental care. "Sometimes when a dentist tells somebody he needs dental care, people don't believe him."

Perhaps regulators will take this comment to heart and not believe everything they hear from the Dental Association.

Milestones

■ *Friendly skies.* More than two-thirds of those responding to a recent *Washington Post*–ABC News poll said airline deregulation has been successful, although 47 percent said it had increased flight delays. Eighty-one percent agreed deregulation had cut air-travel costs, and 54 percent said it had had a positive effect on service.

■ *Hawthorne, call home.* Massachusetts has repealed a 203-year-old law that prohibited cohabitation by unmarried men and women. The law originally called for offenders to stand on the gallows with a noose around the neck, followed by "no less than 39 whip strokes."

■ *All in the family.* Ten college students constitute a "family"

Executive Director: Foresight Institute

The Foresight Institute is a newly-funded educational nonprofit organization based in the Bay Area. The Institute's goal is to help prepare for coming technologies, including advanced computer technologies (such as genuine artificial intelligence), advanced molecular technologies (such as nanotechnology and molecular replicators), space development, and life extension.

We seek an Executive Director able to turn ideas, funding, and a network of motivated people into a growing family of diverse, effective, nonprofit organizations. Position will require strong skills in nonprofit management, recruitment and direction of high-quality volunteers, fundraising, technical literacy, and a strong aversion to flaky thinking. Salary commensurate with experience; senior-level person preferred. Ideal background includes management of a membership-based nonprofit group. For more on FI's orientation, see the book *Engines of Creation.* Respond to Eric Drexler, The Foresight Institute, Box 61058, Palo Alto, CA 94306.

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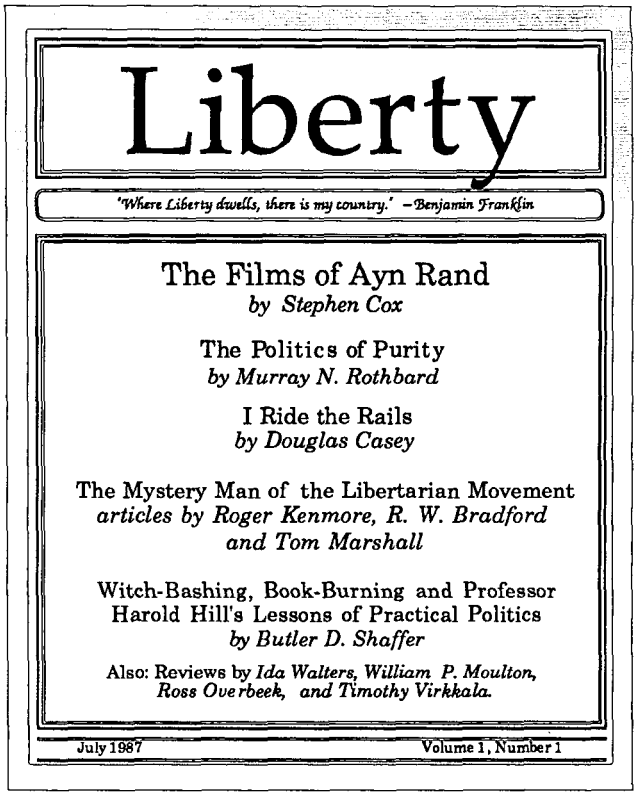
Liberty
'Where Liberty dwells, there is my country.' –Benjamin Franklin
The Films of Ayn Rand
by Stephen Cox
The Politics of Purity
by Murray N. Rothbard
I Ride the Rails
by Douglas Casey
The Mystery Man of the Libertarian Movement
articles by Roger Kenmore, R. W. Bradford and Tom Marshall
Witch-Bashing, Book-Burning and Professor Harold Hill's Lessons of Practical Politics
by Butler D. Shaffer
Also: Reviews by Ida Walters, William P. Moulton, Ross Overbeek, and Timothy Virkkala.
July 1987
Volume 1, Number 1

Liberty is the new magazine that celebrates the diversity of libertarian thought, publishing reviews, essays and articles that analyze and apply the ideas, the ideals and the life libertarianism implies.

Who we are...

The editors of **Liberty** are Murray Rothbard, economist and theoretician; Douglas Casey, bestselling author of financial advisory books; Stephen Cox, associate professor of Literature at the University of California at San Diego; Ross Overbeek, computer scientist at Argonne National Laboratory; and R. W. Bradford, majority owner of Liberty Coin Service and publisher of the economic advisory letter, *Analysis & Outlook* .

We editors reflect the diversity of libertarian experience and approach. We disagree on many issues. But we are united in two convictions:

1) That the role of government in people's lives should be radically reduced or eliminated altogether—thus we are libertarians;

2) That libertarians need a periodical in which to hash out our differences, to share our thinking, and to discuss issues that interest libertarians from an uncompromising, unapologetically libertarian perspective. That is why we publish **Liberty**.

In every issue, **Liberty** presents lively book reviews, challenging and expanding libertarian thinking; movie reviews, keeping you current on today's cinema, as well as uncovering special films of the past; essays analyzing current trends in political and social thought; articles exploring the sort of society that libertarianism entails; discussions of the strategy and tactics of social change; and much, *much* more.

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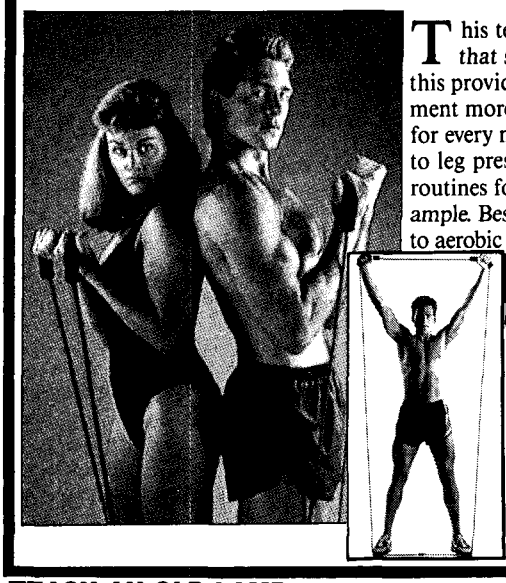
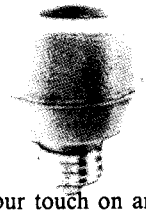
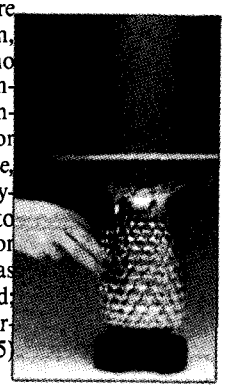


This terrific gym-in-a-bag is a special "rope" that stretches to 2½ times its normal length; this provides the resistance that makes each movement more effective. Instructions include exercises for every muscle group, ranging from side stretches to leg presses to abdominal curls. There are even routines for two — "rowing with a friend", for example. Best of all, it works for those truly dedicated to aerobic fitness as well as for those whose attitude could use some adjustment! For the former, a 15-minute session 3 times a week. For those who "never have time" or are bored easily, there's the "small bites" program: It's easy to take 2 to 3 minutes every hour for just one exercise. Lightweight and packed in its own nylon tote bag, Flex-Aerobic is always handy at home or office and the breaks you take with it do far more to renew your spirits than coffee or munchies. **$29.00** ($3.95) #A1758.

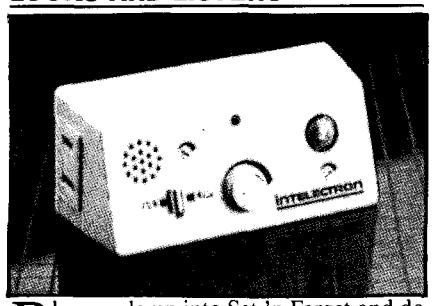
TEACH AN OLD LAMP NEW TRICKS



Any lamp that takes a standard bulb can be updated with the Touchtronic dimmer. No rewiring needed-just screw into lamp socket (the bulb will now be slightly elevated within the lamp). Then your touch on any metal part becomes the "switch"-touch once for low light, again for medium intensity, a third time for full wattage. Perfect for metal-base lamps, since you can touch anywhere; easy enough on others because touching the harp, shade frame, socket or even a metal finial will work. Handy (and safe) when you're entering a dark room, great at bedside (no more wee-hours fumbling) and a real comfort to the arthritic or the ill. You'll save time, money and electricity-no more 3-way bulbs to buy and you pay for only as much light as you need. U.L. listed; one-year factory warranty. **$15.00** ($2.95) #A1700.



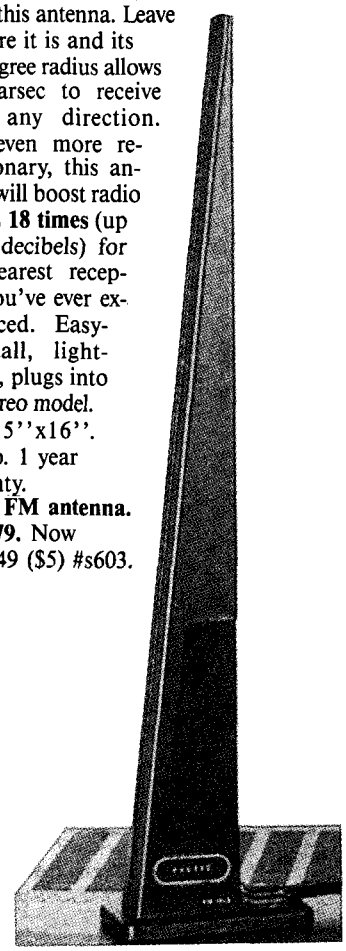
THE TIMER THAT LOOKS AND LISTENS



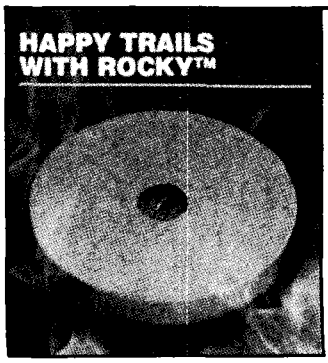
Plug any lamp into Set 'n Forget and do just that. With both noise and light sensitivity (both adjustable to various levels), this state-of-the-art electronic timer works three ways. On the "sound" setting, it will turn on the lamp when it senses noise — handy and safe for you, but decidedly inconvenient for an intruder. A combined "sound/light" setting means the noise will trigger light only if the room is dark — an energy saver during the day. The light-only setting can be used to activate a lamp when darkness falls and thus give your home a realistic lived-in look. In any case, you preset the length of time the light stays on, from a few minutes to 8 hours. Plugs into any outlet, handles up to 400 watts (incandescent only), U.L. listed. **$25.00** ($5.95) #A1749.

IMPROVE YOUR FM RECEPTION. PULL IN WEAK SIGNALS WITH CLARITY

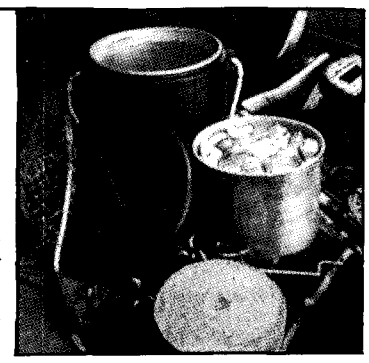
Now you can eliminate FM radio signal fade and the aggravating signal cross-over that garbles sound. The new Parsec omnidirectional FM antenna is the only indoor antenna that literally thinks for itself. Its micro chip and printed circuit brain receives all signals and isolates them into individual, clear frequencies. No need to constantly redirect this antenna. Leave it where it is and its 360 degree radius allows the Parsec to receive from any direction. And even more revolutionary, this antenna will boost radio signals **18 times** (up to 24 decibels) for the clearest reception you've ever experienced. Easy-to-install, lightweight, plugs into any stereo model. 2''x3.5''x16''. One lb. 1 year warranty. **Parsec FM antenna. Was $79.** Now only $49 ($5) #s603.



HAPPY TRAILS WITH ROCKY™



Campfire cooking sounds romantic, but too often yields unromantic results – dry, underdone or otherwise unpalatable. Not so with Rocky. The secret's a special stone that can be preheated on any campfire or grill. With a handle provided for safety in lifting, the rock goes in the insulated container beneath the 5-qt. aluminum pot. It will then cook food and keep it hot for up to 10 hours. A chart gives estimated cooking times for a variety of foods, from stews and casseroles to roast beef or chicken (the slow cooking produces deliciously juicy roasts with no need to add liquid). Rocky even bakes bread or cakes! Preheat the stone on range or in fireplace for economical and carefree slow-cooking at home, and take Rocky along for a hot meal on car trips or tailgate picnics. 90-day limited warranty. **$60.00** ($6.95) #A1734X.



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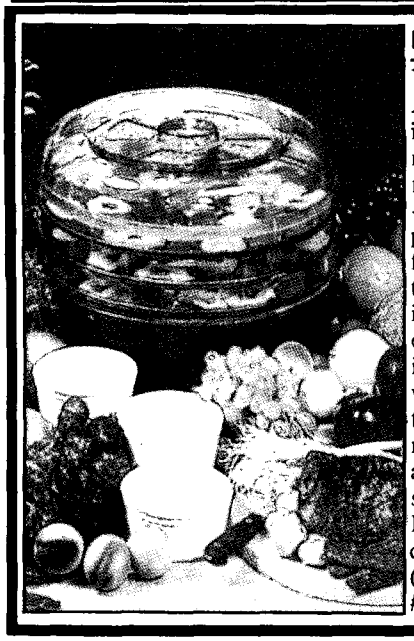
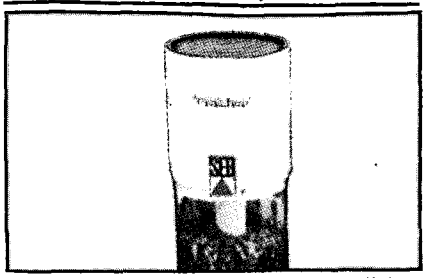


FOOD DEHYDRATOR

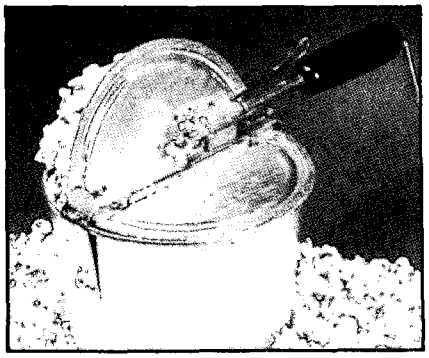
Even if it weren't so specially low-priced, this food dehydrator would be immensly economical. Using almost none of your valuable time, it makes nutritious, preservative-free, refined-sugar-free, *healthful* dried fruits and snacks, plus yogurt — at a tiny fraction of their price in stores. Simply slice fruit into lemon juice, spread on the perforated plastic stacking trays and forget it for 12 to 24 hours. With electrical coil at bottom, the unit is engineered for convection heating; no fan needed, so it's energy-efficient and noiseless. A 28-page instruction book provides guides for adjustable vents and timing plus enticing recipes. Treat kids to crispy banana chips, make dried apples, apricots, raisins...even beef jerkey and vegetables for soups and camping trips... try zucchini slices with sesame seeds — a dieter's dream substitute for hi-cal chips. Four 8-oz. cups for yogurt making included. 12" dia., U.L.-listed. 5-tray Dehydrator (shown) **$49.00** ($5.95) #A1756X. 3-tray Dehydrator **$39.00** ($4.95) #A1755X.

CHOP, CHOP, QUICK, QUICK



Food processors are great for big slicing jobs, but have you ever tried to mince parsley in one? You end up with a combination of chunks and parsley juice. From France, where mincing is an art and garnishes are *de rigueur,* comes the electric Minichop for all those in-between jobs that are too tedious to do by hand, too small for a full-size processor. The Minichop gives you fine even chopping for onions, garlic, fresh herbs; works on nuts, coffeebeans, peppercorns; even makes babyfood. It is simple to use and a snap to clean and costs **$32.00** ($3.95) #A1107.

GOURMET POPCORN



Most electric and hot-air poppers "puff" the corn more than they "pop" it, leaving it tough with hard centers. This flat-bottomed stove-top popper reaches 475° (electric poppers typically operate at 350°) and pops full in two minutes with 4 quarts of the best popcorn you ever tasted. Stirring paddle with through-the-handle crank virtually eliminates burnt or unpopped kernels. Wooden handle for safe grip, two dump lids. Pop without oil for delicious diet popcorn, 325 calories per giant bowl. Produce tender, fluffy, old fashioned movie theater popcorn, **$19.00** ($3.95) #A1503. For taste-tempting flavored popcorn, a selection of 3 gourmet flavors —raspberry, praline and caramel — enough for 6 more gallons of popcorn costs **$10.00** ($1.95) #A15043.

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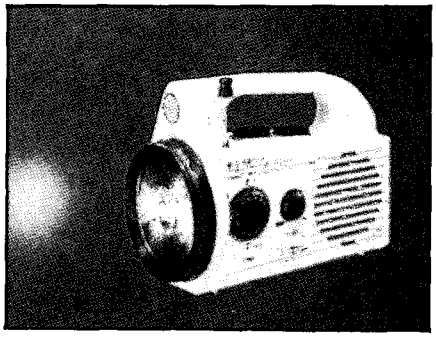
We don't know how they found room to put so many safety and convenience features into 8" of length that weighs just 3 pounds, but you'll be glad they did. Flashlight-radio has AM/FM supersensitive reception plus instant weather band. The giant 3¼" lens provides excellent light, plus blinker setting for help or warning and a removeable red lens cover. It's powered by 3 "C" batteries (not included), is water-resistant for outdoor use and then there's the piece de resistance — an electronic siren that could be a real lifesaver. Your only problem will be deciding where to keep it: every home should have one, upstairs and downstairs, but so should every car, camper, boat, garage, basement, patio and knapsack. **$29.00** ($4.95) #A1752X.



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Oranges are good for a whole lot more than eating. Citrus oil, it turns out, is a remarkably powerful cleaning agent with none of the liabilities of chemical solvents. It is safe, gentle, natural, pleasant to use. Orange Magic levitates the toughest dirt and stains — inkspots, blood, grass stains, paint splatters, caked-on grease, mildew, adhesive, lipstick, gum, tar, scuff marks, you name it. Yet it is as natural as sunshine, pleasant-smelling, absolutely nonabrasive and nontoxic, kind to hands, easy on surfaces and colorfast fabrics, biodegradable. We offer two pump bottles for **$15.00** ($3.95) #A1342.

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trends

and can't be evicted under Glassboro, New Jersey, zoning laws, a New Jersey Superior Court judge has ruled. The young men, dubbed the "Glassboro Ten," share chores, rent, and expenses and generally behave like kinfolks, said Judge Edward Miller.

■ *Bingo bonanza.* The Supreme Court has ruled that states cannot regulate gambling on Indian reservations. Justice Byron R. White wrote for the majority that "self-determination and economic development are not within reach if the tribes cannot raise revenues and provide employment for their members."

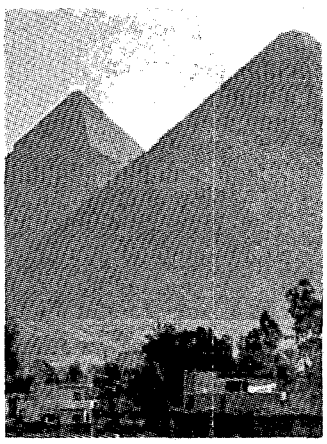
—Robert W. Poole, Jr., Lucy Braun, Bill Kauffman, Virginia I. Postrel, and James Taranto

global trends

Trade Like an Egyptian

JERUSALEM—Egypt has had socialized and nationalized markets since ancient times. Today, however, there are glimmers of hope.

President Anwar Sadat began liberalization efforts in



1974 with his "Open Door Policy," under which foreign and domestic investment controls were relaxed. But the massive introduction of U.S. aid (almost $20 billion since '74) funded huge enterprises, many controlled by Sadat cronies and the well-connected. Most of the aid was spent on military and large public-works projects.

Though the Egyptian government still profits from U.S. aid, the oil glut has sharply reduced remittances from the two million to three million Egyptians working in the oil states, who've earned as much as $60 billion. So the government of President Hosni Mubarak is at a crossroads: with the oil glut and a decrease in canal traffic and tourism, he must further Sadat's liberalizations if the economy is to revive.

At top levels of the Mubarak government, private enterprise has influential friends. His two recent premiers, Kamal Hasan Ali and Ali Lutfi, have suggested privatizing all state-owned corporations except those in strategic areas, such as steel production. The Cairo-based Business Association, led by former ambassador to the United States Ashraf Ghorbal, calls for a restructured economy with a limited state role, something Mubarak and his aides are not yet ready for.

At the grass-roots level, the 52 million Egyptians who benefited from the oil boom and Sadat's reforms have seen their standard of living rise 113 percent since 1974. The black market is also flourishing, a response to the many controls that still exist. In the consumer-oriented society Egypt has become, a return to socialism would bring great discontent.

For both economic and nationalist reasons, an increasing number of Egyptian voices are being raised against U.S. aid. A reduction in aid would probably quicken Mubarak's move toward free enterprise, for a healthy economy may also decrease the appeal of radical Islam: In the April 1986 elections, Islamic parties took 61 of the 448 seats.

—Oded Yinon

Privatization Rocks Around the Block

WHILE HIPSTERS TALK up Max Headroom, condoms, and Vanna White posters, privatization continues to sprout up in the four corners of the globe:

• International jetsetters are flying the private skies more often. The British government has already sold its shares in British Airways, and Japan unloads its 35 percent stake in Japan Airlines in July. Less breathtaking moves—partial sale of government-held shares—have been taken or are planned by the Dutch, Belgian, Canadian, Jordanian, Sudanese, Indian, Pakistani, Argentinian, and Australian governments.

• Togo, the west African nation sandwiched between Ghana and Benin, is selling two textile mills to private interests for $30 million. Largely financed by venture capital raised in the United States, the sale is expected to result in 5,000 jobs.

• The Philippine government is seeking to sell numerous state-owned enterprises, including hotels, sugar mills, textile factories, an electronics company, and a boat-building firm.

• In a different kind of privatization, the Soviet Union has officially legalized small-scale entrepreneurship in a variety of fields: restaurants, repair shops, taxis, plumbing, even yoga instruction.

And the beat goes on...

French Give Thumbs Down to Censorship

WHEN FRENCH MINISTER of Interior Charles Pasqua started a war on smut in his country, the Paris newspaper *Libération* let everyone know what it thought about the matter. It printed nine cartoons of Pasqua in what the *Los Angeles Times* tactfully described as "awkward sexual and scatological poses."

The incident was just one colorful illustration of how well censorship is going over in France. Pasqua's campaign received a chilly reception from publishers convening in Paris for an annual book fair, as well as from disapproving members of Jacques Chirac's conservative coalition.

The controversy emerged in March, when Pasqua issued regulations that in effect banned the public sale of five magazines and threatened others with the same restrictions. Premier Jacques Chirac tried to keep his distance without disavowing Pasqua, but other members of Chirac's government balked.

Minister of Culture and Communications François Léotard told the publishers that the law allowing Pasqua's actions is faulty, and conservative legislator Charles Million also disavowed the crackdown.

It seems that the attempted censorship has embarrassed the French government more than a few dirty pictures ever could.

A handful of super-rich *Insiders* pick our presidents . . . promote socialism and Communism . . . provoke and profit from wars.

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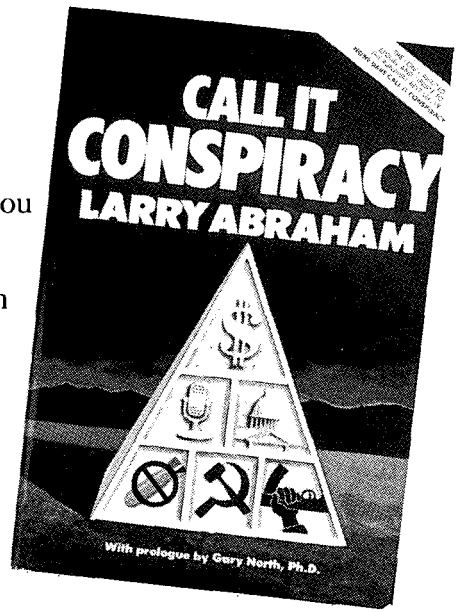

The largest multinational banks on earth subsidize socialist and Communist regimes. Are they crazy?

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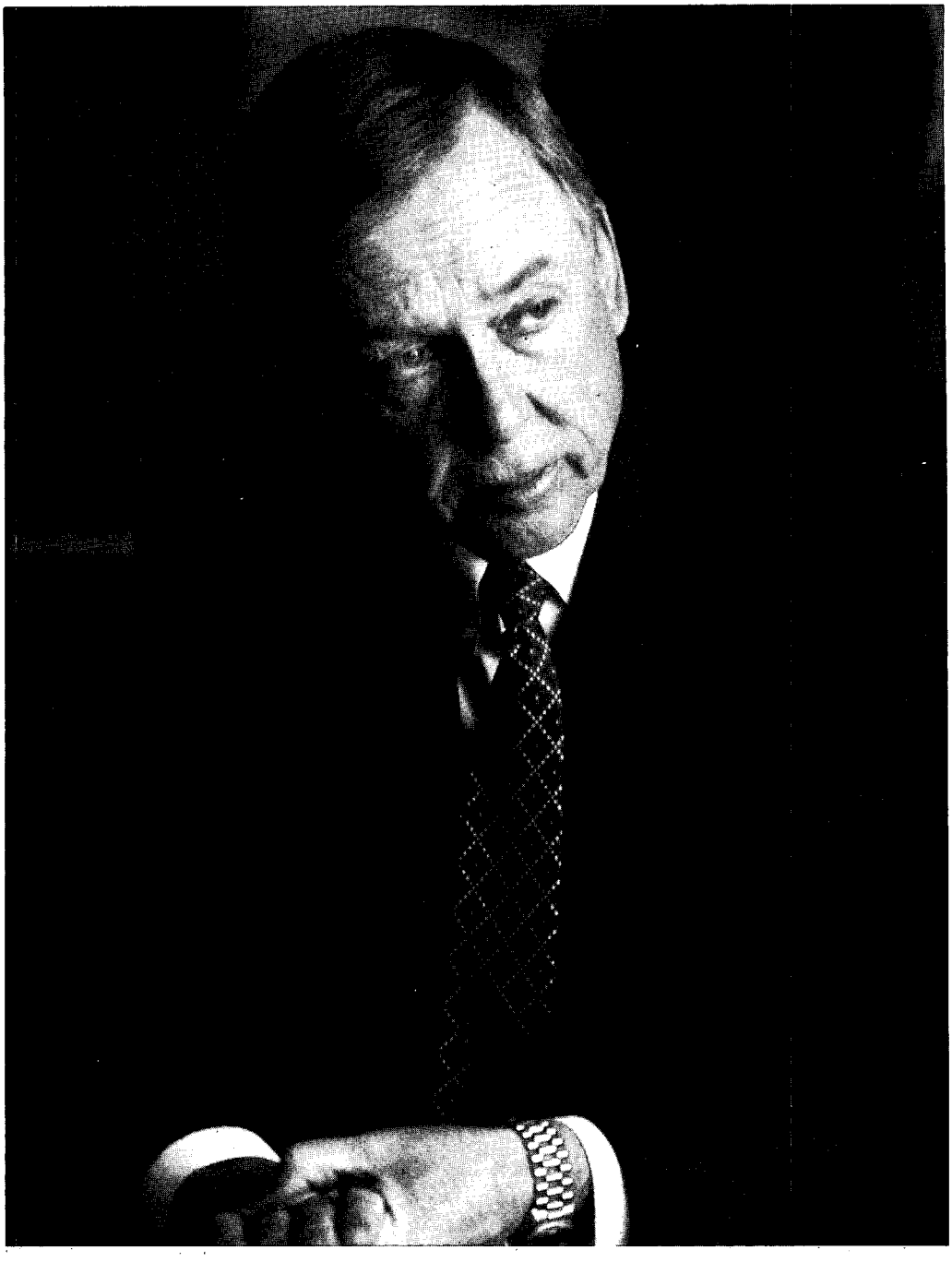


Photographs by J. P. Plunier

T. Boone Pickens

T. Boone Pickens, Jr., speaks softly in a friendly Texas drawl, but the toughness of his words belies his low-key manner. Corporate managers, he says, are "crybabies" who run to Washington when the going gets tough. They "lie about what their motives are." And, he hints, they are afraid of Boone Pickens.

For good reason. In three decades, the Oklahoma-born geologist has built a $2,500 stake into Mesa Petroleum, of Amarillo, Texas, the nation's largest independent oil company. And he has become the country's best-known corporate raider—a term he despises. Along the way, he has made friends and enemies, lots of headlines and millions of dollars for himself and his shareholders. His new autobiography, Boone, *has become a bestseller, the most successful of this year's crop of business biographies.*

In 1982, Pickens launched the first of a string of takeover battles—for Cities Service, an oil company six times Mesa's size. Occidental Petroleum wound up with Cities, and, as Cities' largest shareholder, Mesa made a $32-million profit in the company's stock. Other losing but profitable takeover attempts followed: Gulf Oil, Phillips Petroleum, and Unocal. Pickens's most recent proposal, to take over Diamond Shamrock for $2 billion in cash, was flatly refused by that company's board of directors. And there are rumors of future targets, including Texaco.

Such takeovers have sparked a backlash, including efforts to restrict them by law. A year ago, Pickens formed the United Shareholders Association to lobby against such laws and for changes that would strengthen shareholder control.

With his boyish but weathered face, Pickens looks at once older and younger than his 58 years. A high-school basketball star despite his relatively short stature, he now keeps in shape with daily games of racquetball.

Assistant Editor Virginia I. Postrel interviewed Pickens—with occasional interjections from his wife of 15 years, Bea—in the living room of their two-story suite at the Beverly Hills hotel L'Ermitage during a recent trip to promote his book.

Reason: More than most entrepreneurs, you seem very interested in getting the press and also the academic community to understand what you're doing. Why do you think that's important?

Pickens: I have to work with the press—I have no choice. Sometimes I'm disappointed in how they see things, but I still have to work with them. I don't think anybody is going to argue that I'm usually the little guy in these deals. And there are certain tools that I can work with to help my situation—and one is to explain what I am up to.

Two, I always feel that I'm on the right side of the issue. I don't mind being questioned, and Tom Braden on "Crossfire" asked me one time, "Why are you on this show? Are you running for public office?" I said, "No, I'm not. I guess it's because you invited me. Also, I'm controversial, and the way to clear up controversy is to be available to take questions—any kind of questions—and answer all the questions. And never get upset about the line of questioning."

Academia? I think they come from a totally different direction and that is they should have no conflicts of interest. They should be able to examine the empirical data. I want it to be made available to them. If I'm wrong, I want an independent analysis, and I'm very keen about what they come up with.

Reason: I think most academic economists would tend to agree with you.

Pickens: Sure they do. Because the data when analyzed will come up on this side. There really is some horrible deficiency in corporate America.

What you have to continue to build in is accountability. It should scare the hell out of everybody when you have somebody spending somebody else's money. It's the same with politicians. If we will allow economics to drive the corporate sector, it will restructure to the point where accountability will be brought back in the system. It will not be total, but it will be satisfactory to the majority.

At the same time that it happens, I think that there is an opportunity here to see it roll off into the government sector and see accountability come back in there—not as great because it's not driven by economics. But you have the same thread that runs clear through. You have politicians spending taxpayers' money and you have management spending stockholders' money. If you can keep pounding away on accountability, accountability, accountability, you're going to eventually get that in place, to some degree, everywhere.

Reason: What can you do in the government to create accountability?

Pickens: Well, they have got to do something about the spending. The dollar that is charged to the taxpayer is pennies when it gets to the recipient. Whoever it is, wherever it is. The slippage is just unbelievably bad.

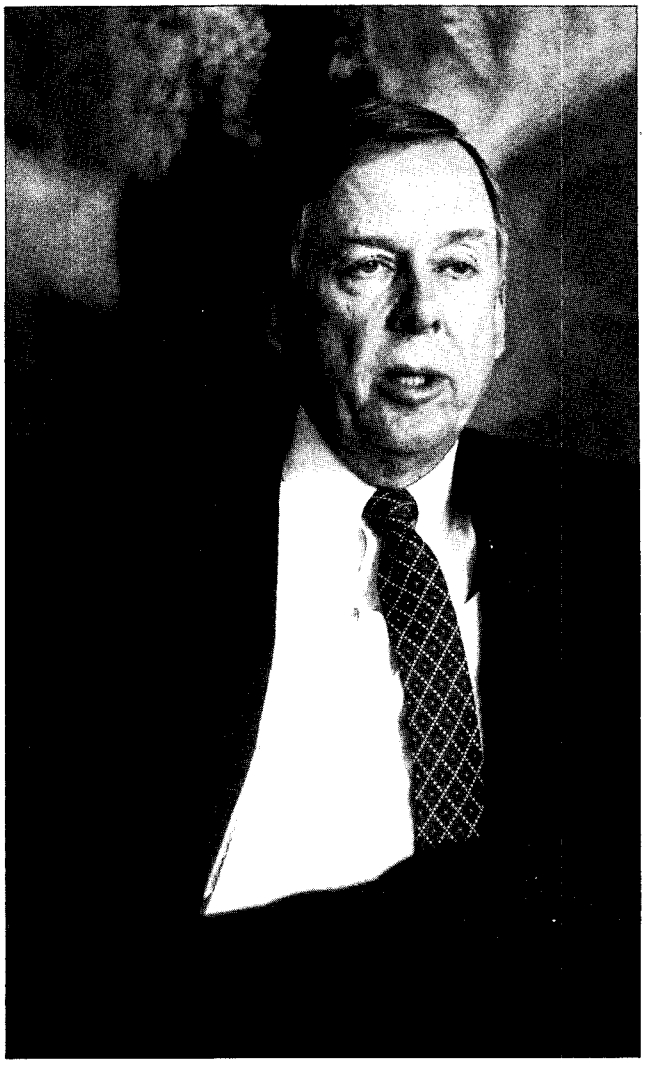
To sit up there and have a Senate or congressional committee question you about what your approach to business is and whether you're being responsible or not by borrowing money and doing certain things—it's almost amusing to sit there. Here these same people who are asking the questions aren't even close to balancing a budget.

The one place that just cries for attention is the Defense Department. A $350-billion budget? Whew, I hate to think what is wasted in that $350 billion. Half of it? What is the figure? You know that it's billions and billions of dollars.

So, someplace in there somebody gets up and says we're going to bring accountability back into the system. And people are going to respond to it. They'll say, That's right, that's exactly what we need. Look what happened over in corporate America back in the '80s—maybe we're up in the '90s when this happens—we brought accountability back in, we got our market share back, we're now competitive, the stockholder is happy, the market is above 3,000. And they'll say, Now we're going to do it over in the government sector.

Reason: It's a little harder to get people to try and take over Congress.

Pickens: You can take over spots, and I think that if you had an attitude switch in this country—which may be in the making right now—with the people starting to say, Well, that person just stands up and says it like it is, that person says we're going to be accountable for what we're going to do, that person says we're not going to spend unless we have the revenues, that we're going to reduce the debt—all this makes sense to people and they're going to say, Well hell, let's give him a try. About the time you get a few of those people elected, then find out they'll go out and do just exactly what they said they'll do, it opens it up to others.



"The less regulation you can have, the better off you are. It just makes stronger industries."

Reason: You noted in your book numerous examples where the "Good Ol' Boys"—heads of major corporations in general and the Business Roundtable lobbying group in particular—had used political influence to thwart shareholders' wishes.

Pickens: It amazes me that these people have as much power as they have—I'm talking about the CEOs of major corporations—because one, they personally give very little money to candidates for public office. And they won't stand up and be counted. They are afraid that they are going to pick the wrong side and be out. So what they'll try to do is ride two horses right down to the wire and then, immediately on knowing the winner, they'll then make whatever contribution personally.

Reason: How do they get so much power?

Pickens: I think Congress is impressed with the companies that they head. And of course, a tremendous amount of money is poured through the Business Roundtable into Washington to lobby. They lobby for their special interests continually. It's really some rather old thinking that's gotten in place, that makes you think that these people are very powerful. The Republicans have been really stuck for years with the big business label. So it's incredible now that you have [Democratic] Senator Proxmire and Senator Metzenbaum fighting the battle for entrenched management.

Reason: Could you discuss some of the takeover legislation proposed by Proxmire, Metzenbaum, and others? Which proposals are particularly good and which are particularly dangerous?

Pickens: It is disappointing when you see managements pay greenmail [use company funds to buy a potential acquirer's stock at a large premium to prevent a takeover]. And managements are the culprits in that, clearly. They're just taking someone else's money and spending it so that they can keep their jobs. And it's disappointing that managements can't just come out and say, "We are not going to pay greenmail. That's all there is to it. And if somebody takes a large position in the company, they can

come on the board of directors and help us do the things that are necessary to maximize value. If they don't want to do that they can sell their stock just like they got it, in the open market." But it looks like we are going to have to have some greenmail legislation, because we don't have managements that have enough backbone to stand up to those situations.

Second, probably the best thing that Congress could do would be to completely remove the 13-d reporting requirement. [Under current law, anyone who has acquired 5 percent of a company must file a public statement, called a 13-d, with the SEC.] But in the event that they aren't going to do that...

Reason: They're talking about making you file the 13-d even sooner.

Pickens: All that is is an entrenchment device for managements. It's to be sure they can keep their job or give them a notice sooner that somebody is accumulating stock in the company. Proxmire even mentions that you should announce before you buy any shares of stock.

Reason: One share?

Pickens: Yes. I don't think that has a prayer, but still, extending 13-d is going to take away stockholders' rights.

Reason: What do you think would be the effect if some of these measures passed?

Pickens: If they'll put enough entrenching devices in, they'll cut off offers. If that is the case, naturally it is going to be against stockholders' interests. It could certainly have an effect on the economy. Right now there are still offers around—not nearly as many offers, because the Dow's up to 2300 and it's too expensive.

Reason: In your book you say "20 years ago if a company took a billion dollar write off, that stock would have gone through the floor and a CEO would be on the street." Why have things changed?

Pickens: Well, because I think the CEOs have clearly gotten more entrenched in their positions. They're tenured. You can't get rid of them for just making a stupid billion-dollar error—you can't flush one for that reason. All of us, me included, all the companies that you run are your private fiefdoms. Because you select the board and the board is beholden to you and they are just not going to fire you for losing a billion dollars. That won't get you bounced. If some things we're doing, in our United Shareholders Association—if we get those in place and we do establish again that stockholders own companies, you could see people fired for things like that.

Reason: What types of things are you trying to accomplish?

Pickens: What we'd like to do now is to get a confidential vote [a secret ballot for shareholders voting on directors, changes in company bylaws, merger proposals, and so forth]. If we can get a confidential vote, we think it could make a lot of difference, because institutional investors have so much pressure put on them to vote with management that they can't—they won't vote in their fiduciary role.

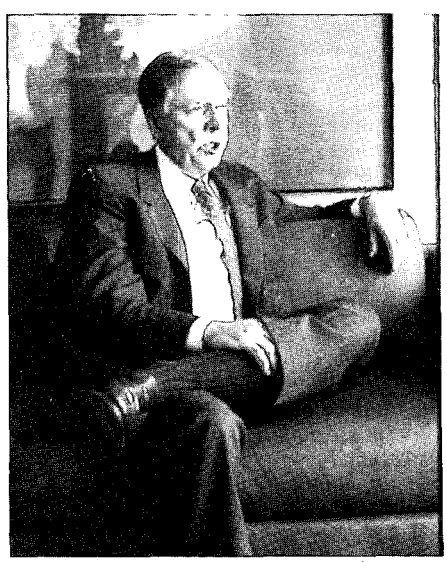
Reason: What would it take to acquire a confidential vote?

Pickens: I think it should start with the SEC. And second, ERISA [which regulates pension funds] has got to get into it too, over at the Labor Department.

Reason: What besides the confidential vote are you concerned with?

Pickens: The proxy process has to be changed. There are two things about the ballot—one is that there is no confidentiality to it. The incumbent sends the ballot to you, you mark it and send it back, they count it and tell you what happened—which is worse than the Philippine election, because they can do it all in their office behind closed doors. They don't even have to do it with a gun to anybody's head. But the second thing that concerns me is that you have no choice on the ballot. It's like Russia.

"It should scare the hell out of everybody when you have somebody spending somebody else's money."



Reason: These guys or no.

Pickens: That's right. It's real hard to run a separate slate on a ballot. I just wonder how long it's going to be before the people in this country catch on.

Reason: A lot of them throw their proxies in the trash can.

Pickens: Because they think it's a fixed deal. What's happened is that at some place back in the past the management stole the company—with no financial risk. They have no stock, but they own the company. And of course their old pitch was, "If you don't like the way I'm running it, sell your stock." Well, it isn't their company to say that. That's like having an estate and you don't like the way the gardener cuts the lawn—you don't sell the estate, you get rid of the gardener. And for anybody to say that to a stockholder just epitomizes the arrogance of the whole system.

Reason: How much stock do you think CEOs should own?

Pickens: You can't go by the number of shares. They have tried to come back to me on that and they say, "You don't think that we should own a big percentage of General Motors or something do you?" No, I don't think that. It would be nice if you did, but you're not in a position to do that. I think they should have 75 percent of their net worth tied to the companies they run.

Reason: Is that realistic in terms of their wanting to diversify their own portfolio? How would you get people to do that?

Pickens: I don't see why they'd hesitate to do it. If you're going to run one of these companies, my God, I'd think that had better be an easy call. How could you ask somebody to buy stock in the company, for one thing? See, I own 90 percent of my net worth in Mesa. If you really believe in what you're doing, that ought to be easy for you.

You take Roger Smith of General Motors. He has 35,000 shares of stock and he's been there 39 years. He gets compensated up to $5 million a year at times, and his 35,000 shares of stock represents less than six months of one annual compensation. There's something wrong with the system when he's sitting there, you say diversified, I'd say he's really diversified.

Reason: In your book, you called the SEC "the one government agency that deserves praise." What do you think of their current war on insider trading, and why do you like that particular agency?

Pickens: Can you tell me where they've messed up? I don't agree with them all the time. They've had their deficiencies like

other government agencies. But nonetheless, I think that they're cleaning up the insider trading. I think they were slow getting started. But government agencies *are* slow getting started. I think once they've gotten in they've acted the role of bulldog and have really clamped down and hung on and are doing a good job.

Reason: Do you think there is a risk that they'll go too far?

Pickens: Don't give me that Chicken Little argument. You don't like it because they didn't go, now they've gone, now you think well maybe they'll go too far. It may happen, but our system straightens itself out pretty well. It's like somebody telling me that they knew of one takeover that didn't work. Well there isn't any part of our system that's going to be perfect. But for every one that didn't work I can show you 100 that did work. So we're not going to shut down the banks because Jesse James robbed one of them. You just drive on and make the system better.

Reason: You're opposed to import tariffs and quotas. Why?

Pickens: If you go back and look at any industry in America that received protection in Washington, they come out of that period weaker than when they went in. You're either going to compete and sit on your own bottom, or you're going to have to step down and play in a different league. Now I do think you open up trade to other countries. I think that is important—that they should be as fair with us as far as access as we are to them. I think that's something the government can do.

Reason: How?

Pickens: Just tell them that they have to give the same access and if they don't then we'll operate off of their rules. Maybe that's a form of protection, but I don't identify it that way. If they won't let our goods into their country, then why should we let their goods into our country?

I just don't think that you can go in and start handing out umbrellas in Washington and expect anything good to come out. Overall, you'll be a net loser. Of course, the consumer in America is going to raise hell when they see what some of this protection does to them. And they should.

Reason: Do you think the government should do anything to reduce American dependence on foreign oil?

Pickens: The people that want protection for the oil industry are the same people who run to Washington and want protection from Boone Pickens, too. They want to be protected from everything. You're talking about great big companies. They ought

"If somebody's willing to sell this country $18 crude oil, I think you ought to take their $18 crude oil."

to be able to take care of themselves. And the way they can take care of themselves is to take care of the stockholders and to compete in world trade. It isn't running to Washington every time you find yourself behind in the third quarter. Those are also the same people who run to Washington just as soon as the price of crude oil goes up and say, We want to be decontrolled. Just watch their path to Washington. Just about anything will send them in that direction.

Reason: Do you favor decontrol, though?

Pickens: Sure I do. The less regulation you can have, the better off you are. It just makes stronger industries. Plus the consumer is better off because they don't have the cost of regulation.

Reason: What do you see ahead for the oil industry?

Pickens: It's going to be a very slow situation. But if somebody's willing to sell this country $18 crude oil, I think you ought to take their $18 crude oil. I'm not fearful of "now they've got you and they're going to run the price up." They've got you anyway. You're importing over 30 percent of the crude oil right now, so they've got you now. As far as I'm concerned there's not much difference between 30 percent and 50 percent. If they want to run the price up, they can do it. But what happens when they do that? Then you'll bring other energy sources on line. So it's all driven by economics. And there are a lot of untapped energy sources in the United States. They'll be there when the price rises.

So why rush to develop your last remaining oil reserve, when somebody is willing to let you have theirs for $18? Why do you want to encourage the industry to go out and drill? That is the most short-term thinking I've ever seen. What are we going to do 10 years from now? There is not much oil left to be found in this country. If you look at an average well in the U.S. today, it's 14 barrels a day. An average well in the North Sea is 4,000 barrels a day, and an average well in Saudi Arabia is 10,000 barrels a day. We're a high-cost producer. That is what it is. And why people can't get this through their heads, I don't know.

Reason: You've not only said that CEOs should own stock, but you've also supported the idea of employees owning stock. What would the effect of that be?

Pickens: If you go back to Adam Smith's *The Wealth of Nations*, he says that a corporation may not be the best structure to operate under. I think what he was saying is that the stockholders, being the owners, have a different attitude about how the earnings should be treated. They would like to have the profits of the corporation themselves. The management would like to retain those earnings and make the corporation grow.

The irony of the whole thing is that there are a lot of mature corporations in America that have *no*, absolutely no, business diversifying. If you look back over the diversifications for the last 20 years in corporate America probably 90 percent of them have failed. What does that tell you? The economy, the stockholders, and America would have been a lot better off had you taken those earnings and, instead of making poor investments with them, had you pushed them out in dividends and let that money then pay taxes, create jobs, and move the economy forward. We might be shocked at what could have happened. I think that potential still is there. What you have to do is cut out diversification by mature industries. I think managements have to understand that size is meaningless and results are everything. Consequently, good core businesses like Goodyear should have never gotten in the oil business, for instance. It was stupid.

Right now, you've got these same crybabies around in Washington telling about how they're put under so much pressure from takeovers. They say they have rusting-out plants and everything else because they have had to have quarter-by-quarter comparisons and they couldn't rebuild. That's hogwash. They've had great opportunities to rebuild their plants and modernize. But they haven't done it, because they are very greedy personally, and they've let their employee count go down.

Let's just take companies that haven't been under any pressure, and start with Exxon. They cut out 82,000 jobs in three years—from 182,000 to 100,000 jobs. Gen-

eral Electric, no pressure on them, they've cut out 90,000 jobs. Look at General Motors—nobody's trying to take over GM, and in just one week they shut down 11 plants and cut out 39,000 jobs.

Reason: Is there a danger though in counting business success by counting jobs? You noted in your book that Mesa had 600 employees and Unocal, 20,000, and you suggested that perhaps Unocal was a bit overstaffed.

Pickens: What you want is good solid jobs. What happens is, many of these are not solid jobs because management has not done solid planning. It's the same group every time. It's inept management that has caused you the problem. Why is it we lose market share overall? Inept management. Why is it we lose the jobs? Inept management. You can go back every time and you take it back to one place. It's not *circumstances* that caused it, it's the stupidity of managers that have let it happen.

Reason: I'd like you to respond to this quote. It summarizes some of your critics' views. A *Washington Post* reviewer of your book called you "One of those people who sees life as essentially composed of pieces of paper to be shuffled and traded."

Pickens: What is it talking about?

Reason: There is frequently a criticism that people who are involved in takeovers are "paper entrepreneurs," that making deals as opposed to overseeing operations...

Pickens: There is one common entity in all real business people. They try to buy something cheaper than what it's worth. When you bought that dress, if you could have bought it next door for $20 less than what you'd paid...

Reason: It went on sale a week later.

Pickens: Yeah, and so you felt a little bit stupid, didn't you? But everybody tries to buy something cheaper than the value of it. That is what you try to do—when you go out and buy a ranch, or that lot across the street, or whatever it is. My job is to do the best I can with the capital I have available. If I see where I can buy a company and I get oil in the ground for $3 a barrel, well I'm a fool to go over and drill a hole in the ground and get it for $15.

Reason: In your book, you give numerous examples of either good or bad luck on your part. The bad luck that comes to mind is your losing $3 million because of phones being broken on the golf course.

Pickens: I don't identify that as bad luck. I would identify it as I wasn't very smart. I should have pulled out of the golf tournament and found someplace where I could get on the telephone and look after my

"You make your own luck. If you're hustling, you're a lot luckier. If you're playing golf, you get unlucky."

business. It's my fault. You make your own luck. If you're hustling, I find you're a lot luckier. If you're playing golf, well, you get unlucky.

Reason: The *Wall Street Journal*'s reviewer noted that you criticize CEOs in major companies for in some cases terrific abuses of their corporate responsibilities—taking the company plane to Europe to go hunting and that kind of thing. And yet, in your book, you describe a lot of time spent hunting, playing golf, and flying on jets...

Pickens: I spent a lot of time hunting and playing golf?

Reason: It seemed like it in the book.

Bea Pickens: You ought to go along with him. You wouldn't think that.

Reason: Because when you are ostensibly hunting or playing golf you are really doing business?

Pickens: What she is telling you is that I don't normally play golf.

Bea Pickens: If he hunts or plays golf, 90 percent of the hunting is on our own ranch. And the golf, 90 percent of that is in Amarillo.

Reason: I didn't mean to imply that you use the company airplane to go play golf. But you do use it to save time.

Pickens: Absolutely. There is no way that I can operate with 625 people without moving people fast to different places. Today I have instead of eight vice-presidents that I had in 1984, only two officers, a president and one vice-president. I stretch my people. Listen, anybody can check our logs anytime they want to on those airplanes. Arthur Anderson [the Big Eight accounting firm] says we grade 9-plus on corporate use of company aircraft.

For instance, Friday, Good Friday, Bea used a Mesa Lear Jet to pick up our grandson in Dallas and go to see our daughter in southeast Oklahoma. That trip's on us personally—that's cost plus 25 percent. The only way she gets to use the airplane is if the airplane is not being used.

Reason: I'd like to talk about how you balance your personal and business lives.

Pickens: I don't see that as nearly as much of a problem as a lot of people do. I'm very well organized. One of our pilots said one time that we fly more on schedule than a scheduled airline does. They aren't sitting out there waiting and waiting and you don't show, and you don't show, and five hours later you show up.

It's the same way with our lives too. Well, some people say, that's too structured, we want something more relaxed. You can relax it. All you do is you just say, I'll be there at a certain time or near a certain time—and if you want to stay home for two days, well you do that. It's people that are not organized that are confused. We're never confused. If we're going to the ranch at seven o'clock in the morning, we're at the airport—we have our own airplane—and we go to the ranch.

Reason: What would you say has been the high point and the low point of your career?

Pickens: I don't know. Everything just sorta goes along, and I neither get up or down. It's disappointing to my family sometimes when I'm not more excited about something, and also I think they don't think about the other side of the coin—that I don't get down when things go haywire either. The low point? Gosh, I don't know. We've had some real disasters sometimes.

Reason: Do you think that even-temperedness is important in these big-stake deals?

Pickens: Well see, again, the big-stake deals, all those are, are just undervalued assets that are available in the public marketplace because of inept management. That is all it is. When you say even-temperedness helps, I think that helps anytime, because it doesn't cause your personality to get worked up or excited. What is it you want to see in an athletic contest that is very close? You want to see it under control. You want to see the coach of the team out there telling them that this is the way it's going to be.

Reason: You don't want fights breaking out.

Pickens: No, you don't want that, you don't want him throwing a towel or a chair or anything else. And he says, Now listen real close, this is exactly the way we are going to go. That naturally has a settling effect and people do like to see it. I think it is important for a leader to have himself under control. It does help, sure. ◧

CONSTITUTION

SERIES

1787-1987

They thought America could do best for the cause of liberty by eschewing allies and avoiding distant wars.

Would the Founders Freak?

A major dilemma for the American republic throughout its formative years was how to deal effectively with foreign affairs while avoiding political or military entanglements that could endanger the fledgling nation. This dilemma became particularly acute during the era of the Articles of Confederation.

A belief that America had a unique mission—a destiny quite distinct from that of Europe—was already taking hold. Freed from the Old World's corrupt aristocratic system, the United States symbolized an invigorating experiment in individual liberty and limited government. Such an atmosphere of freedom, Americans believed, would enable them to establish a society that oppressed people everywhere would want to emulate. Political and military links—alliances and other manifestations of the destructive international politics that characterized Europe—might endanger the nation's independence and compromise the commitment to liberty.

At the same time, America could not be indifferent to foreign affairs. The new republic confronted powerful adversaries on its borders. Spain occupied strategic positions in Florida and Louisiana, while British forces remained entrenched in Canada and even maintained outposts throughout the Great Lakes area—territory that had clearly been ceded to the United States in the 1783 peace treaty ending the Revolutionary War.

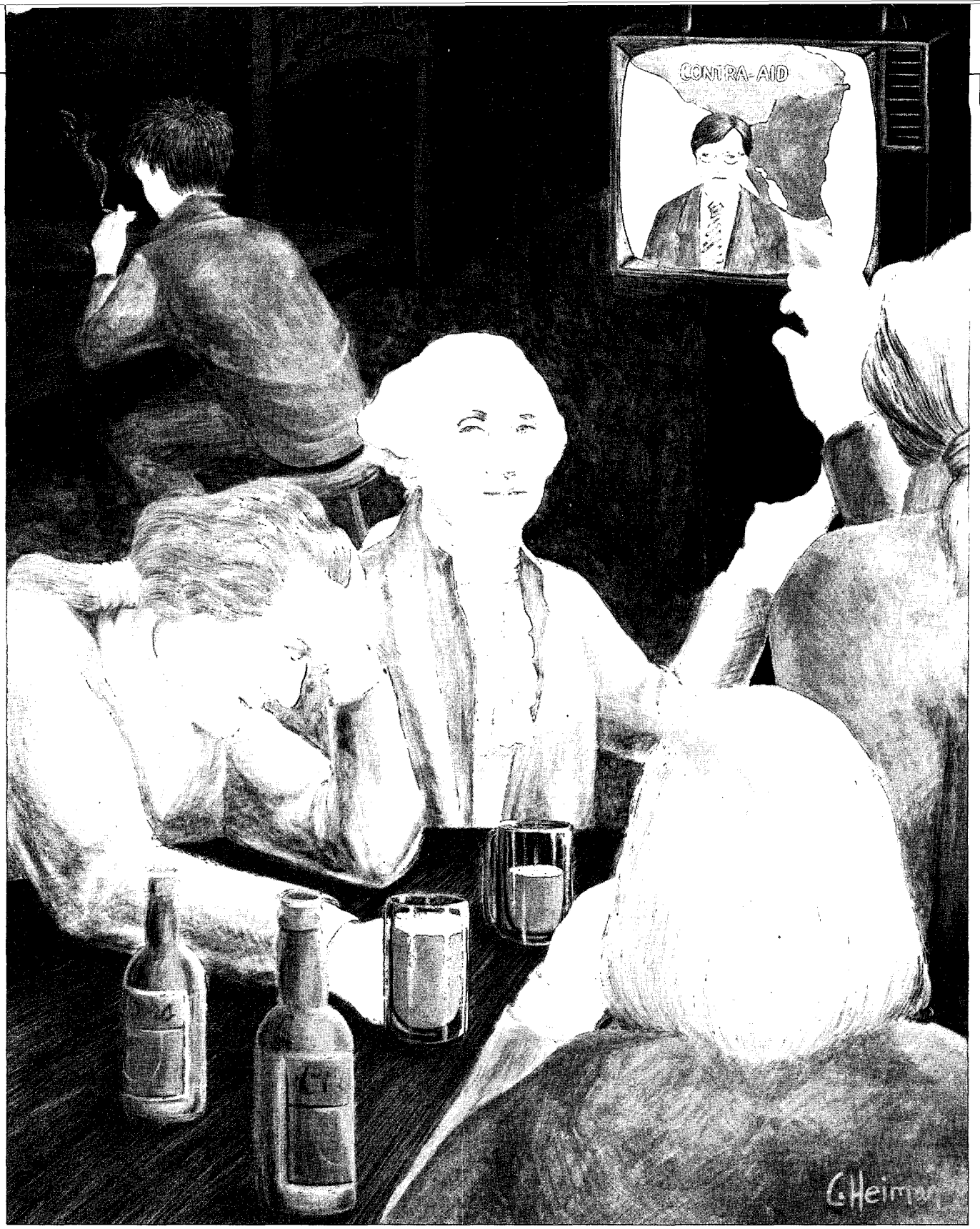
The highly decentralized political structure established by the Articles of Confederation reflected revolutionary republican principles, but it was not the most efficacious system for dealing with foreign states. Long before the Constitutional Convention convened in Philadelphia 200 years ago, conservatives fretted about the lack of a powerful central government to manage foreign affairs. Alexander Hamilton asserted that only a stronger union could prevent "our being a ball in the hands of European powers, bandied against each other at their pleasure," and John Adams warned that disunity among the states could make them the "sport of transatlantic politicians of all denominations, who hate liberty in every shape." Efforts on the part of several states to negotiate individual commercial arrangements with European nations increasingly alarmed conservatives and seemed to underscore the need for a more coherent political mechanism to deal with foreign relations.

by **Ted Galen Carpenter**

Treaties, Trade, and War

The Constitutional Convention did not include an abundance of direct discussions of the power to conduct foreign policy, but that issue represented an underlying motive for various provisions. For example, adoption of a clause granting Congress an exclusive and unqualified power "to regulate Commerce with Foreign Nations" was unquestionably a reaction to the Confederation era. Even establishing a distinct executive branch in the national government reflected the view, at least among conservative elements, that the Confederation Congress had been impotent in conducting foreign policy. Advocates of an independent executive believed that the national government needed an official authorized to represent the entire nation in its relations with foreign states.

Yet even this conservative-dominated convention was not about to abandon republican principles. One crucial feature of the



CAROL HEIMAN

new national government was its emphasis on a system of checks and balances. This power-sharing rationale applied just as rigorously to foreign policy as to domestic responsibilities.

Reflecting concern about problems that arose during the Confederation era, the Framers made the presidency the repository of authority for day-to-day conduct of foreign affairs. The president was authorized to receive the diplomats of other nations and to appoint America's own diplomatic representatives. He was also given the authority to negotiate treaties with foreign states. Finally, the president was invested with the power and responsibility of commander-in-chief of the nation's armed forces.

But the Founders also granted significant foreign policy powers to the legislative branch. The Senate was accorded the right to approve or reject presidential appointees, including the secretary of state and diplomatic ministers. Similarly, it was empowered to "advise and consent" with respect to treaties. Congress as a whole was given the power to regulate foreign

commerce. It was also given the authority to raise military forces and provide funds for their continued operation.

Most important, the Framers gave Congress, not the president, the power to declare war. Although some constitutional scholars disagree, Arthur Schlesinger, Jr., W. Taylor Reveley, and others argue persuasively that *declare* essentially meant "authorize" or "begin." Even Alexander Hamilton, an unusual partisan of executive power, proposed in the convention that the Senate "have the sole power of declaring war," with the executive to "have the direction of war *when authorized or begun*" (emphasis added).

By giving Congress the power to "declare" rather than "make" war (as suggested in an earlier draft), the delegates wanted to enable the president to repel sudden attacks on American territory. At the same time, they had no desire to grant the president unrestricted power to initiate hostilities. The ultimate decision whether the republic would go to war or remain at peace resided with Congress. This arrangement reflected the political orientation of the Founders—inheritors of the British Whig tradition with its renowned aversion to excessive executive power.

Although the governmental structure established by the Constitutional Convention enhanced the republic's ability to promote international commerce and fend off external adversaries, it was not especially conducive to playing an activist political or military role in international affairs. Such a role would have been best served by a powerful, unitary national government dominated by an unfettered executive; ample taxing authority; and the power to raise and sustain large military forces.

But the Convention preserved the concept of federalism and decentralized authority by relying on a separation of powers and checks and balances. Beyond such structural restraints, there was a pervasive hostility to large standing armies. James Madison typified this attitude when he observed in *Federalist* No. 41 that even a small standing army "has its inconveniences," while on an extensive scale "its consequences may be fatal." Even Madison's position was not sufficient for Anti-Federalists such as Edmund Randolph, who opposed the new Constitution largely because it did not place an explicit limitation on the size of the army.

For the Cause of Liberty

In the two centuries since the Philadelphia Convention, in foreign policy as in domestic, things have changed. Through numerous issues and events, both the substance of U.S. foreign policy and the manner in which it is conducted have evolved dramatically.

In his Farewell Address, Washington cautioned against "inveterate antipathies" toward certain nations and "passionate attachments" to others.

The French Revolution was the first event to test the mettle of the new nation. It created problems for George Washington's administration in two ways. The United States and France were still linked by a military alliance formed in 1778—a matter of more than academic concern once the new French republic became embroiled in hostilities with its neighbors. Equally distressing was the tendency of some Americans to take sides concerning the European struggle.

In keeping with early Americans' conception of their nation's unique mission, Washington dealt with the first danger by abrogating the alliance in 1794 and proclaiming strict U.S. neutrality, an action that provoked cries of "presidential usurpation" from outraged French partisans in Congress. His second response was a political testament stressing the virtues of what would today be called an isolationist foreign policy.

In his Farewell Address in 1796 before leaving office, Washington cautioned against "inveterate antipathies" toward certain nations and "passionate attachments" to others. While affirming that the republic might employ "temporary alliances for extraordinary emergencies," Washington clearly advocated a detached approach to world affairs. "The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little *political* connection as possible." In this way, he observed, we would not "entangle our peace and prosperity in the toils of European ambition, rivalship, interest, humor or caprice."

Despite Washington's admonitions, the republic found it difficult to extricate itself from the quarrels of the Old World. During the Napoleonic Wars in the early 1800s America was repeatedly caught in the middle, with Britain especially prone to violate this country's neutral maritime rights. It was not until the successful conclusion of the War of 1812—fought at least in part to defend those rights—that the United States was able to implement a comprehensive policy avoiding entanglements with foreign powers.

The contours of "isolationist" policy became evident in 1823 with the promulgation of the Monroe Doctrine, which emphasized the divergent interests and destinies of Europe and the Western Hemisphere. When President James Monroe presented it to Congress, he proclaimed Americans "anxious and interested spectators" with regard to European developments:

> In the wars of the European powers in matters relating to themselves we have never taken any part, nor does it comport with our policy so to do. It is only when our rights are invaded or seriously menaced that we resent injuries or make preparation for our defense.

Essentially, the United States, reflecting its growing power, was carving out a security sphere. It was an explicit trade-off: the United States reiterated its intention to remain out of Europe's quarrels, while insisting that the conservative European monarchies make no move (such as recolonization efforts in Latin America) threatening the United States with encirclement. This two-hemispheres thesis remained the lodestar of U.S. foreign policy for the next century.

Avoiding foreign entanglements enabled the nation to concentrate on internal economic development and territorial expansion in North America. The latter drive was seen by proponents as an integral part of America's destiny, and most Americans perceived no contradiction between a vigorous program of continental expansion and an aversion to overseas commitments.

Yet the enthusiasm for continental expansion did increase the danger of war. A desire for Canadian territory contributed to the onset of conflict with Britain in 1812. An even more insatiable hunger for the lightly populated northern provinces of

Mexico was a major factor leading to the Mexican War in 1846.

Despite a certain measure of hyprocrisy in the distinction between continental expansion and overseas nonintervention, American leaders were surprisingly consistent about avoiding entanglements outside North America until the end of the 19th century. Even calls for solidarity with other republican movements failed to alter that policy. When a wave of liberal republican uprisings convulsed much of Europe in the mid-1800s, the United States confined its reaction to moral support. In rejecting appeals for material assistance, Sen. Henry Clay expressed the views of a majority of his countrymen:

> By the policy we have adhered since the days of Washington...we have done more for the cause of liberty in the world than arms could effect; we have shown to other nations the way to greatness and happiness....Far better it is for ourselves...and the cause of liberty, that adhering to our pacific system and avoiding the distant wars of Europe, we should keep our lamp burning brightly on this western shore.

Toward Global Commitments

It was not until the Spanish-American War in 1898 that the nation departed significantly from traditional noninterventionist doctrine. The war itself was a brief, almost comic-opera affair, but its consequences were not. At war's end the United States had acquired its first protectorate (Cuba) and its first overseas colonies, most notably the Philippines. Anti-imperialists, such as Andrew Carnegie and Charles Francis Adams, warned that imitating European colonialism would irreparably weaken America's own exemplary commitment to democratic republican values.

It was a prophetic warning. Almost immediately a lengthy and brutal struggle ensued to suppress a Filipino independence movement. The United States also deemed it necessary to intervene in Cuba on several occasions in the succeeding quarter century to restore order and keep friendly regimes in power. With the advent of the so-called Roosevelt Corollary to the Monroe Doctrine in 1905, the United States began to police the entire Caribbean Basin—a role that led to repeated interventions up until the 1930s in Nicaragua, the Dominican Republic, Haiti, and other nations. While these actions did not directly contravene the core feature of traditional doctrine—the avoidance of entanglements outside the Western Hemisphere—it did weaken opposition to the principle of an interventionist foreign policy.

It was American entry into the First World War, however, that marked the beginning of the end for traditional noninterventionism. Although the United States entered that conflict ostensibly to defend neutral maritime rights, much as it had in 1812, there were crucial differences. In World War I, the United States formed extensive cooperative ties with the major powers opposing Germany. Moreover, Woodrow Wilson employed the most universal terms possible to justify the war effort, proclaiming it a crusade to make the world safe for democracy. At the end of the fighting he sought to take the country into a new world organization, the League of Nations, which would have entailed a host of permanent foreign commitments.

The Wilson era was a harbinger of the foreign policy that would emerge in the 1940s. Likewise, America's wartime experience suggested the domestic consequences of intervening abroad. Economic planning, military conscription, and strict censorship became normal features of society. The railroads were nationalized. Pacifists, draft opponents, and critics of U.S. involvement in the war were assaulted, intimidated, and imprisoned. Sedition legislation made even mild criticism of government policy a risky venture.

The interwar period has typically been portrayed as a virulently "isolationist" era. During the 1930s, a noninterventionist majority in Congress pushed through neutrality legislation designed to prevent a repetition of the process that drew the nation into the First World War. Yet in retrospect the interwar period was merely the "Indian summer" of noninterventionism.

The consensus began to fragment with Nazi Germany's wave of conquests. Franklin Roosevelt's administration, concluding that a Nazi-dominated Europe and a Japanese-dominated East Asia posed a threat to America's security and economic well-being, moved the United States into a de facto alliance with Britain long before the attack on Pearl Harbor produced a formal declaration of war. By the end of the Second World War, an interventionist consensus was almost as pervasive as noninterventionism had been previously. Whereas the Senate had rejected U.S. membership in the League of Nations, it approved the new United Nations Charter with only two dissenting votes.

Fearful of possible Soviet designs for global domination, a majority of Americans endorsed the containment doctrine inaugurated by the Truman administration. A vocal minority fought a rearguard action against the Truman Doctrine, the Marshall Plan, and other tangible manifestations of containment, warning, as had their forefathers, that America was undertaking onerous and dangerous obligations; but they were overwhelmed.

Perhaps no event more clearly symbolized the eclipse of noninterventionism than the decisive Senate approval of the NATO pact in 1949. NATO embodied precisely the kind of entanglement that Washington, Jefferson, and other Founders had warned against—a long-term military alliance with European nations. NATO was merely the first of a host of such alliances. Today, the United States has formal commitments to defend more than 40 nations, plus numerous informal (but entirely real) promises, such as the "special relationship" with Israel. Most recently, the "Reagan Doctrine" pledges the United States to assist anti-Soviet insurgent forces seeking to overthrow incumbent governments in several Third World countries. The contrast with the refusal to aid liberal republican movements during the 19th century could scarcely be more striking.

The contrast of the Reagan Doctrine with the refusal to aid liberal republican movements during the 19th century could scarcely be more striking.

The Continuing Struggle

Just as the content of U.S. foreign policy has undergone a dramatic transformation in the past two centuries, so too has the manner in which it is conducted. Inevitable ambiguities in the Constitution's delineation of foreign policy

powers between the executive and legislative branches created what Edward S. Corwin aptly termed "an invitation to struggle."

The most obvious change in the conduct of foreign policy has been an enormous expansion of presidential authority. Tellingly, the greatest growth of executive power has occurred during wartime or when military crisis seemed imminent. On those occasions, Congress has shown deference toward presidential initiatives.

James K. Polk provided a graphic lesson in how control over the military can, in the hands of an ambitious president, lead to an increase in executive authority. By ordering U.S. troops into disputed territory along the border between Texas and Mexico in 1846, he courted if not deliberately provoked a Mexican attack. Once American troops were being fired upon, Congress had little choice but to approve Polk's call for a declaration of war. Some historians contend that Franklin Roosevelt employed the same tactic to perfection nearly a century later.

Congress also allowed chief executives a considerable amount of latitude to use military force in "minor" incidents not involving serious danger of a large war. Thus Congress did not insist on a declaration of war when President Jefferson launched attacks against the Barbary Pirates. In the 20th century, presidents routinely deployed the Marines in various Caribbean and Central American nations, invariably without declarations of war and often without explicit congressional authorization.

Since the latter cases all occurred in a region long regarded as part of the republic's vital security zone and involved small nations that were incapable of posing a serious retaliatory threat, Congress exhibited indifference toward executive activism. But such episodes nourished, however inadvertently, notions of presidential preeminence and set precedents for unilateral actions on a far more massive scale in Korea and Vietnam.

By the 1940s, the ground had been well laid for a sustained expansion of presidential power, culminating in an "imperial presidency." Franklin Roosevelt maneuvered a reluctant nation toward war through a series of unilateral actions, transferring destroyers to Great Britain, proclaiming the western half of the Atlantic a "defense zone," ordering U.S. naval vessels to convoy British ships, and imposing a draconian trade embargo on Japan. Once the United States officially entered the war, he disregarded Congress to an even greater degree. Major decisions reached with Britain and the Soviet Union, not only about the conduct of the war but about the postwar settlement, were concluded by executive agreement rather than treaty, excluding the Senate from the decisionmaking.

Roosevelt's successors duplicated and even exceeded his activism. Meeting the Communist challenge and fulfilling global commitments appeared to place a premium on secrecy and decisive action. Truman responded to the Korean crisis by sending U.S. troops without even asking for an authorizing resolution, much less a declaration of war. Sen. Robert Taft angrily termed this action "a complete usurpation by the President of authority to use the Armed Forces of this country," but his views were in the minority. Truman even attempted to seize the nation's steel mills under claimed presidential authority as commander-in-chief during wartime. Although the Supreme Court struck down his thesis, that rebuke scarcely slowed the onrushing executive-power juggernaut.

Both Lyndon Johnson and Richard Nixon asserted a right to conduct the Vietnam war without congressional approval. Even the Tonkin Gulf resolution was dismissed as superfluous moral support. Instead, both presidents relied on expansive interpretations of their constitutional powers as commander-in-chief and spun elaborate theories of "inherent" presidential power.

Congress finally reclaimed some of its foreign policy prerogatives in the 1970s. Passage of the War Powers resolution, restrictions on the use of executive agreements in lieu of treaties, and provisions for congressional oversight of intelligence agencies restored at least a portion of the system of checks and balances. This congressional resurgence may prove transitory, however, as the Reagan administration has once again asserted extensive executive power over foreign policy.

From Liberty to Force

Whatever the exigencies of world affairs that have seemed to justify the foreign policy that has dominated this century, on balance the transformation from the "pacific system" lauded by Henry Clay has had an undeniably corrosive effect on the republic. It has created serious political distortions, as evidenced by the rise of an imperial presidency. It has also proved costly in other ways. Nearly 400,000 young Americans have perished in combat since the early 1940s. More than 100,000 of that number lost their lives in the Korean and Vietnam wars, whose relationship to U.S. security was, at best, obscure.

The financial cost is nearly as great. In the past four-and-a-half decades, the United States has spent nearly four trillion dollars on the military. According to government figures, more than 60 percent of America's defense budget subsidizes the security of allies and client states. This economic burden is disturbing, especially since the United States spends nearly 6.5 percent of GNP on the military while West Germany and Japan spend 3 percent and 1 percent, respectively.

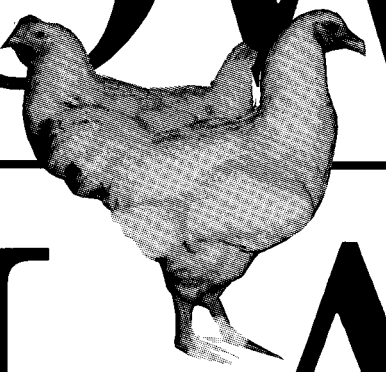
Most troubling of all, interventionism has seriously compromised fundamental American values. Domestically, every major episode of foreign entanglement has, as the Founders warned, involved a discernible contraction of individual liberties (as Robert Higgs pointed out here in July, "In the Name of Emergency"). Externally, the United States has tarnished its image as a symbol of liberty by providing political, economic, and military support for an assortment of "friendly" Third World dictatorships.

Those who contend that international realities of our day require interventionism in defense of our liberty would do well to consider the words of John Quincy Adams, who warned long ago of a corruption of values if we abandoned our commitment to peaceful neutrality:

> [America] well knows that by once enlisting under other banners than her own...she would involve herself beyond the power of extrication in all the wars of interest and intrigue, of individual avarice, envy, and ambition, which assume the colors and usurp the standard of freedom. The fundamental maxims of her policy would insensibly change from liberty to force....She might become dictatress of the world. She would be no longer the ruler of her own spirit. ◧

Ted Galen Carpenter is a historian and the director of foreign policy studies for the Cato Institute in Washington, D.C.

FOWL PLAY



Hungary opened up its economy, but when the chickens came home to roost, Doromby's goose was cooked.

by **Thomas O. Melia**

Endre and Andrea Doromby are criminals, and they are proud of it. The husband and wife clearly relish the familiar sound of the Magyar words, repeating *gazdasági bűntény* as they explain what it means to have committed "economic crimes" in their Hungarian homeland. It means they found themselves in very hot political water, even though they broke no laws.

What the Dorombys did was accept their government's reformist pronouncements at face value and, in the manner prescribed by the regime, launch a business that succeeded. But when their activities and statements supporting free-enterprise principles earned them the enmity of the Communist establishment, they found themselves increasingly harassed by the state—to the point, in fact, where their business could no longer function and the Dorombys were obliged to abandon their company and seek political asylum in the West.

Hungary is famous for its "liberal" economic policies and for a tolerance of private enterprise and consumerism considered unique in the Soviet bloc. Just scan the headlines: "Tinkering with Orthodoxy: Hungarian Reforms Are Risky Challenge to System" (*Los Angeles Times*); "Hungary: Free Enterprise Eases the Control of Collectivism" (*Christian Science Monitor*); "Hungary Plans Major Moves Toward Free-Market Economy" (*Washington Post*); "It's Now Okay with the Party to Acquire Riches in Hungary" (*Washington Post*); "Hungary's Passion: Keeping Up with the Laszlos" (*New York Times*).

Professors, naturally, do it at greater length (as a bumper sticker might read). Last fall, on the thirtieth anniversary of the short-lived Hungarian Revolution, *The New Republic* published an expansive tribute to Janos Kadar, the Communist boss who has ruled Hungary since 1956, when Soviet tanks crushed a popular revolt against Stalinism. The author was William McCord, professor of sociology at the City University of New York. While noting the continuing presence of "a vigilant secret police" and "pervasive" inequities in this people's republic, McCord is nevertheless quite bullish on "bourgeois communism as a way of life": "In economist Clark Kerr's measure of a country's physical welfare—a sensitive combination of literacy, infant mortality, and life expectancy—Hungary scores 91...not far behind the United States, at 94."

The reason is the far-sighted economic policies the regime has developed: "Hungary's leaders have initiated the 'New Economic Mechanism,' which abandons most of the classic tenets of a command economy and grants a high degree of autonomy to individual enterprises. Since the mid-'60s the reforms have prompted a boom in private entrepreneurs."

The Dorombys have a different story to tell.

In 1979, at age 37, Endre Doromby had for five years been a supervising engineer responsible for much of the construction of the Budapest subway system. He had earlier taught industrial management and organization at the Polytechnical University and was a former chief of the technical department of the Society for the Dissemination of Scientific Knowledge, a kind of Hungarian counterpart to the Rand Corporation. He knows what makes both things and people work.

That year, Doromby decided to launch a poultry-producing GMK (for *gazdasági munkaköz össég*, or "private entrepreneurial undertaking"). He had never even seen a chicken coop, but it seemed a low-technology business that he could automate and manage more or less by himself. Which is how he had to operate, because it would have been illegal to hire anyone to work for him.

With friends and family providing the labor, he built a 30-by-100-foot chicken house in an abandoned sand quarry outside Budapest and bought some feed and 7,000 broiler chickens. The first year, working alone, he grew two flocks, or 14,000 broilers, and grossed the equivalent of $15,340.

Through careful observation and great ingenuity, he soon made numerous innovations and improvements in his expanding facility. Cleanliness, proper temperature and ventilation in the house, sufficient elbow room afforded the birds, the quality of the feed and water and the timing of its provision—these all affect the rate at which chickens grow. Maximizing growth rates

Hungarian newspapers raved that Pepi was eight to ten times as productive as the "showcase" state-run poultry farm.

over time is the way to succeed in this business. Which Doromby quickly did. In 1981, with one, unofficial coworker, he began producing his own feed. That year he grossed $298,000 and made a profit equivalent to $58,000.

In 1982, the Hungarian government legalized small-scale private entrepreneurial undertakings. Those who could figure out how to make and sell something could have at it—and were permitted for the first time to employ others. Endre Doromby immediately hired 14 people.

Next, Doromby created traveling stores out of three "articulated" buses (the long ones that bend in the middle for turning on city streets). They would park with

Because of a 91 percent tax on profits, Doromby had to continually reinvest his proceeds in expansion.

fresh broilers along selected routes that people followed home from work. "I know where the busy subway stations are," says Endre, "because I supervised their construction."

By 1984, Doromby had hired the maximum 40 employees allowed by law. ("Small-scale businesses are supposed to stay that way," explains Andrea.) Yet he had managed to create an almost wholly integrated operation: from feed production, through poultry growing and butchering, to innovative direct marketing to Budapest consumers. As the American trade magazine *Broiler Industry* would note in 1985: "It seems incredible that a person like Doromby, with no prior knowledge of the industry, could have absorbed so many details of vertical production and of the distribution and marketing functions as well. And all of this in just about four years."

Andrea Hosso met Endre in January 1984, when he hired her as his foreign-trade executive. Hungary is a country of just ten and a half million people, and Doromby had decided to explore larger markets. He needed someone to deal with the various functionaries who wield the rubber stamps and dole out the permits required to do business across borders—as well as a person who could locate additional financing and international opportunities.

Andrea quickly identified interested parties in Austria and Liechtenstein and began negotiating for the necessary licenses and financing. She also arranged for Pepi, as the company was now called, to participate in international trade shows.

Meanwhile, the business soared. By October of 1984, Pepi had grossed more than $10 million. The depreciated capital assets of the company alone were worth about $1.3 million if Doromby wanted to sell. And maybe he should have.

For it was at about this time that his competition, so to speak, decided that they had had enough. The commissars in charge of state-run poultry farms were not worried about market shares or losing money or anything so mercantile as all that. Worse. They were embarrassed in front of their friends in the government.

Doromby had achieved a certain amount of acclaim for his accomplishments. The distinctive Pepi rolling stores patrolled Budapest's streets, and their plump broiler chickens were preferred. Hungarian newspapers raved about the fact that Pepi was eight to ten times as productive as the "showcase" state-run poultry farm, Babolna. Harry Reasoner had even interviewed him for "60 Minutes." Endre Doromby had quickly become the very personification of Hungary's dynamic capitalism, proof posi-

Doromby created traveling stores out of three buses that would park with fresh broilers along commuting routes.

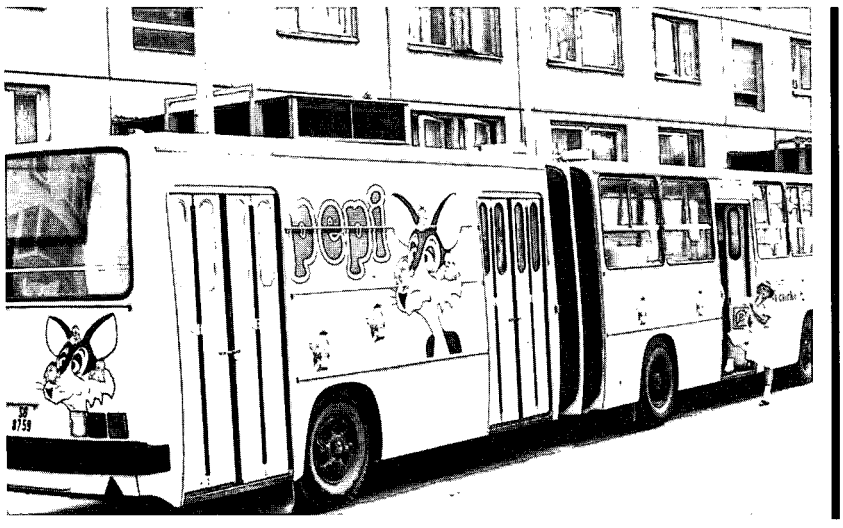
tive that the "New Economic Mechanism" worked.

How did his government show its appreciation?

Early in the summer of 1984, Endre was summoned by the deputy prime minister, Josef Marjai, who asked him to prepare a critique of the state-run operations. Marjai wanted a written report on what they were doing wrong and how they could improve their efficiency. Citizen Doromby, in what he now considers his "million-dollar mistake," obliged.

"My stupid husband," says Andrea with a smile and a sigh. "He did what he was asked and prepared a very frank report."

Doromby drafted a paper based on his own experience with vertical integration and what he knew about the state-run farms he had seen or done business with. He suggested numerous improvements (so extensive, he still insists today, that the



massive subsidies required for the state farms and cooperatives could be eliminated).

The report went to Mr. Marjai in July. In August it became clear to Endre that he was in trouble. The Ministry of Agriculture and the federal bank, for the first time, were giving him a hard time about credit.

Doromby soon realized that his report to the deputy prime minister, identifying which state farms were most poorly run and what ought to be done with them, had been passed on to the Ministry of Agriculture. From there it had been circulated to the farm managers themselves, with instructions simply to do what he advised. The farm managers, unsurprisingly, were embarrassed and angry that he had described their incompetence in such informed detail. Doromby, after all, had only been in the business five years.

A long and painful story may be summarized thus: when Robert Bugert, chairman of Babolna, the principal state poultry farm, got *his* letter from the ministry, he apparently complained to his card-playing buddy, one Janos Kadar, first secretary of the Communist Party and maximum leader of

Endre Doromby and his wife, Andrea, now live near Washington, D.C. Hungarians flocked to Pepi's stores-on-wheels, but after Doromby ruffled official feathers, he flew the coop.

this people's republic. Somehow the state bank (the only legal source of credit in Hungary) and the Ministry of Agriculture were advised of the consequent dissatisfaction at higher levels.

In September, Doromby was notified that the co-signer for a loan from the state bank was backing out. (In capitalist-mad Hungary, a private company can only borrow from the state bank, the sole legal source of credit, if a state-run enterprise co-signs for the loan.) Pepi needed a $1.4-million loan for operating capital. Because of a 91 percent tax on profits from private business, Doromby was obliged continually to reinvest his proceeds in constant, almost geometric expansion. When a second tentative co-signer also backed out in October, Doromby realized, pardon the expression, that his goose was cooked.

"The western press praises Hungary's "free-market" economy. That, says Doromby, "only helps the Kadar government and does not reflect the reality of life for the Hungarian people."

Andrea Doromby interrupts Endre's narrative to explain, as she searches for the English meaning of *gazdasági bűntény*. " '...economic criminal'—I do not know if this phrase exists in America. It means owing money you cannot pay, because you are prohibited by law from liquidating your only assets."

Pepi did have 11,600 tons of wheat in storage that had been purchased for $850,000 in August. Doromby would have liquidated some of this for operating capital and consolidated his operation, except for another bit of fine print in Hungary's "New Economic Mechanism": private businesses are not allowed to sell grain or other raw materials to state organizations, and there was no private mill that could use it. Pepi was also owed tens of millions of forints (hundreds of thousands of dollars) by various state-owned enterprises that had begun using the processed feed Doromby had developed—but a private company has no effective leverage to compel payment. So, even though he had several million dollars' worth of assets, and inventory he was willing to sell, Doromby was technically insolvent.

It happened that Doromby received the bad news by phone, while attending an international exposition in Holland. Foreign-trade executive Andrea Hosso had arranged for him to show off to fascinated Western poultry producers the inventions and innovations that were making him so unpopular with officialdom at home. It occurred to him then, in the midst of the admirers at Utrecht, that he might be able to raise capital outside Hungary through the sale of patent rights to some of his poultry equipment and grain-quality devices.

So in November, Endre and Andrea set off on an adventure that took them to Scandinavia, Canada, and eventually the United States. They remained in regular contact with their managers back in Budapest, growing increasingly frantic about the financial stranglehold the bureaucracy was applying to Pepi—all because Doromby's entrepreneurial reforms had riled the chicken commissars. They did not originally intend to stay abroad in the West, but while they traveled, notes Andrea, "the situation ripened."

In February 1985, while in the New York area, they learned by phone that Pepi and all its assets had been seized by the Hungarian government and that the police (McCord's "vigilant" peace officers) had started questioning relatives. Andrea and Endre got married and applied for asylum in the United States. It was quickly granted.

Today, the Dorombys live in Vienna, Virginia. They have visited poultry farms in 13 states, including those run by giants of the American industry. Endre worked for a time as a consultant to one of them. The Dorombys think they can do better. So, while Andrea pursues an MBA and Endre works at odd jobs and improves his English, together they are developing a comprehensive business plan for launching a wholly modernized broiler operation in the United States.

"Europeans are more inventive," says Endre with confidence, "because in Central Europe, where we are much less resource-rich than here in the United States, one has to be clever just to survive." The lessons of economy and mechanical innovation learned in Hungary, insist the Dorombys, could lead to tremendous cost savings in American poultry production.

Skeptics may think that Americans surely must have already developed every worthwhile improvement and cost-cutting technique relevant to poultry production. After all, chicken is fast replacing the almighty hamburger as the staple centerpiece of the American meal. These doubting Thomases may want to consider that it was a Hungarian émigré who forever changed the all-American institution of football.

"In Central Europe, where we are much less resource-rich than here in the United States, one has to be clever just to survive."

Pete Gogolak arrived in this country as a teen-ager when his family fled Budapest after the suppression of the 1956 uprising. After setting Ivy League records at Cornell, Gogolak went on to become the leading place-kicker in the AFL and later set the pace in the NFL. Because it yields such great accuracy and distance, Gogolak's once-revolutionary "soccer-style" kicking technique is now the standard in the game.

As for the more recent Hungarian émigrés, the Dorombys have set up a consulting firm called Agriplex, Inc. They are looking for investors who will enable them to test the limits of the *American* free-enterprise system.

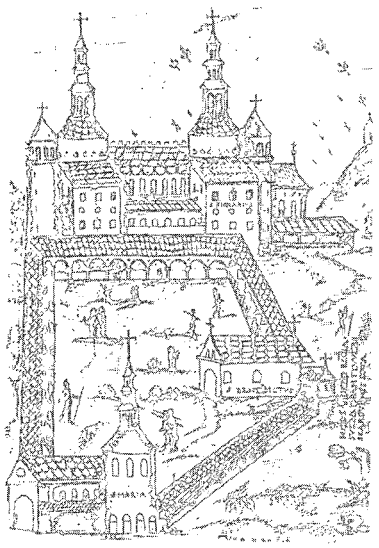
They have a great deal of confidence in their new country. "What can be achieved with democracy," says Endre, "can be achieved here. Despite its faults, the U.S. is absolutely the peak of democracy."

He is not as effusive about Americans who admire Hungary as an example of liberal socialism. "Someone who is born here in the U.S. just has no idea how dictatorship works. An example is the way the press here can be so full of praise for Hungary's 'free-market economy' because journalists are taken on guided tours of selected sites. That kind of reporting only helps the Kadar government and does not reflect the reality of life for the Hungarian people." ◧

Thomas O. Melia is associate director of the AFL-CIO's Free Trade Union Institute.

The free-market insights of medieval theologians

What St. Bernardine's Ass Could Teach the Bishops



by **Alejandro A. Chafuen**

During the early 1400s, the city of Siena, Italy, was a leading commercial and industrial center, much like its northern neighbor Florence. And in this cradle of capitalism, the most popular figure was a Franciscan friar named Bernardine. His speeches so enraptured listeners that the town's church could not accommodate the crowds, and listeners had to gather in Siena's largest piazza.

The noise of the multitude swiftly faded as Bernardine commenced his homily: "Have you heard the story about the donkey of the three villages? It happened in the Valley of the Moon. There was a large shed close to the windmill. In order to take the grain to the mill, three villages agreed to buy a donkey and keep him in the shed.

"A dweller of the first town went for the donkey, took him to his home, loaded the animal's back with a heavy bag of wheat, and led him to the mill. During the milling, he released the ass so he could graze, but the fields had become barren because of heavy treading. When the wheat was milled, he collected the flour, loaded it on the donkey, and returned home. The man unloaded the ass and brought him to the shed, muttering to himself, 'He who used him yesterday must have given him a lot of grass. Surely, he is in no need now,' and left the donkey.

"The following day, a villager from the second town went for the donkey. He took him to his farm, placed on him a heavier burden than the day before, and—without feeding him—led the animal to the mill. With the milling over and the flour already at home, the villager returned the donkey to the shed thinking that yesterday's user must have treated the animal well. And, yes, he left the donkey, saying, 'Oh, I am very busy today.' Two days had passed, and the donkey still did not have a bite.

"On the third day, someone from the third village arrived for the donkey and burdened him with the heaviest load yet. 'This donkey is owned by the Municipality,' he remarked, 'so it must be strong.' And he took him to the mill. But on the way back, with the wheat already milled, the donkey was sluggish and often halting.

The villager had to whip him, and after a strenuous effort, they arrived at the shed. The villager complained, 'What an ass this Municipality bought to serve three towns! He is a piece of trash!' That day also the donkey was not fed.

"Do you want to know how it ended? The fourth day, the poor beast collapsed and was torn to bits."

When the majority of U.S. Catholic bishops voiced their disapproval of the market economy in last year's pastoral letter, they exhibited not only a lack of understanding of how markets work but also an ignorance of their own religious heritage. For Catholic teaching includes a vital, though too often ignored, strain of free-market thought—that of late-medieval theologians like St. Bernardine.

Perhaps St. Bernardine's religious education, with its understanding of human imperfections, explains why he never regarded the authorities or the people as angels. He saw private property as the way to ensure that, in a nonangelical community, goods would be used for the betterment of society.

Nor was he alone. During the later middle ages, many leading churchmen hailed free-market principles. These were the Scholastics, or Schoolmen, "part-time" priests and full-time academicians who followed the Aristotelian, rationalist tradition of St. Thomas Aquinas. Most Scholastics were, like St. Bernardine, members of religious orders—Dominicans, Franciscans, Jesuits, or Augustinians—and taught in ecclesiastical schools.

Their work concentrated on ethical questions—What is good? What is just?—and their goal was to formulate a corpus of thought applicable to all areas of life. To clarify such issues as whether high taxes are good or bad, for example, they first analyzed the causes and effects of taxation. In answering such questions, the Scholastics contributed to the development of economic knowledge and left behind an intellectual tradition far more compatible with prosperity, freedom, and even virtue than that preferred by too many of today's clerics.

"The only agreeable country is the one where no one is afraid of tax collectors," wrote Pedro Fernandez Navarrete.

For example, Francisco de Vitoria, a Dominican of the early 1500s, argued that if goods were commonly owned, evil men and even thieves and misers would profit most. They would take more from the common barn and put in less, while good men would do the opposite.

Consistent with their defense of private property, several Schoolmen were strong critics of government abuses and often confronted the authorities. The outspoken Jesuit Juan de Mariana, who lived from 1535 to 1624, is beyond a doubt the best example—his criticisms landed him in jail. In a superb portrayal of bad governments, he described how the "rich and the good" become their prime victims. Tyrants "drain individual treasures. Every day they impose new taxes. . . They construct large, monstrous monuments, but at the cost of the riches and over the protests of their subjects."

In 1619, another Scholastic, Pedro Fernandez Navarrete, chaplain to the Spanish king, argued that poverty was caused by the government's "great and wasteful spending on nonsensical factories, exquisite banquets...and continuous spectacles and parties." He criticized the enormous number of bureaucrats "sucking like harpies" on the government's wealth while poor workers could hardly maintain themselves. He concluded that "the only agreeable country is the one where no one is afraid of tax collectors."

Mariana, too, had few qualms about debunking bureaucrats. "We see ministers, recently risen from the dust of the earth, suddenly loaded with a thousand ducats in rent," he wrote. "Where is this money coming from, if it is not from the blood of the poor and the flesh of businessmen?"

He foresaw that a huge debt, oppressive taxes, and inflation were the natural outcome of big government. His analysis of how governments inflate their way out of their debts—a process he regarded as "infamous systematic robbery"—would later influence Adam Smith's analysis in *The Wealth of Nations* in 1776. If Mariana could read the bishops' pastoral letter on the U.S. economy, he would be amazed to see the major cause of poverty (creating dependence on government spending) touted as the solution (more welfare!).

Wages, profits, and rents, the Schoolmen determined, are not for the government to decide. Profits are justified when they are obtained by buying and selling at just prices—market prices arrived at without fraud, force, or monopoly.

Duns Scotus, an influential Scholastic theologian who wrote in the late 13th century, had taken a different approach. After demonstrating the usefulness of merchants and businessmen, he recommended that the good prince take steps to ensure adequate prices to cover both their costs and their risks.

In response, most Late Scholastics agreed that, while it is legitimate for manufacturers and tradesmen to earn a profit, it is impossible to establish an absolute level of the "just profit." St. Bernardine, for instance, cited the example of a merchant who buys a product in a province where its price was 100 and takes it to another province, where the current price is 200 or 300. "You can legally sell at that

A WORLD WITHOUT HEROES

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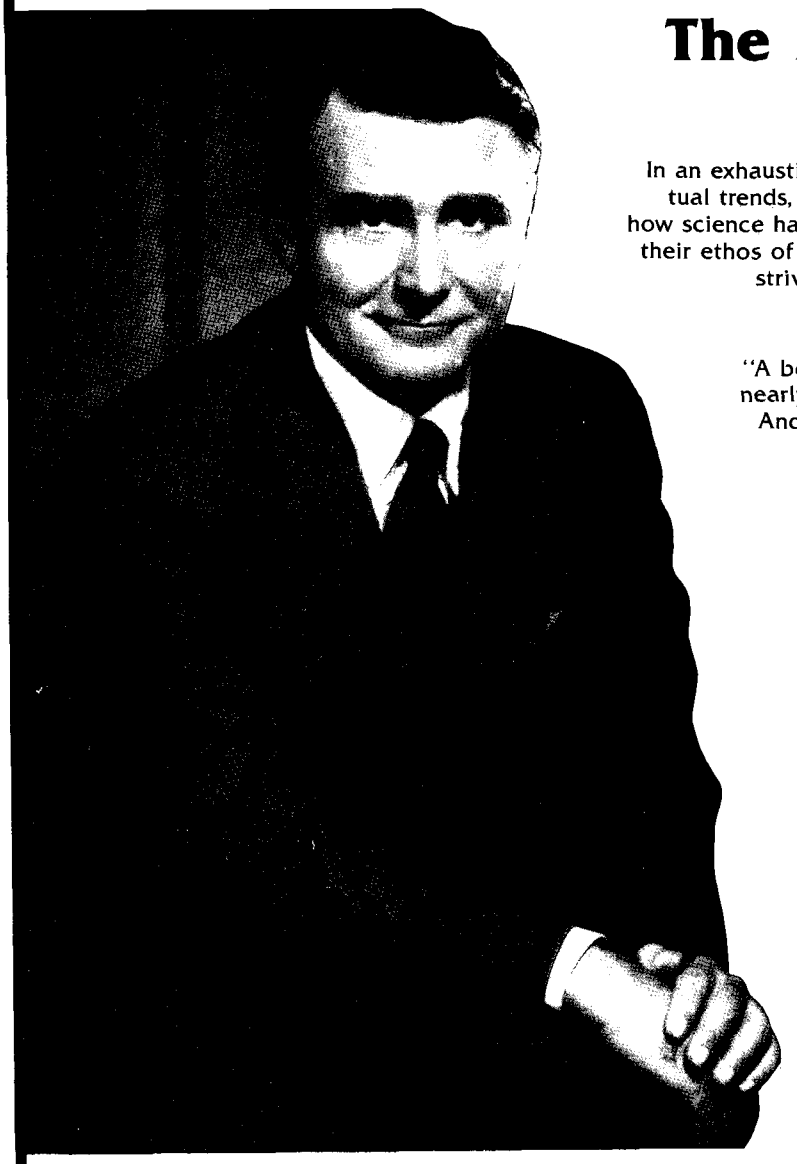

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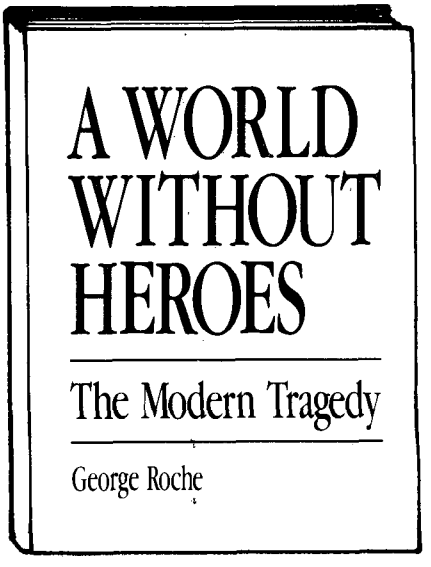

price which is current in that community," he declared. In the opposite case of buying at 100, then finding that the price has dropped to 50, St. Bernardine recognized that "it is the nature of business that sometimes you win and sometimes you lose."

Actions such as Lee Iacocca's or the semiconductor industry's requests for help from the government when their businesses are in danger would have been challenged by many Scholastic moralists. Juan de Mariana, for one, argued that entrepreneurs who, when confronted with losses, "cling to the magistrates as a shipwrecked person to a rock, and attempt to alleviate their difficulties at the cost of the state are the most pernicious of men...[and] must be rejected and avoided with extreme care."

Moralists though they were, the Scholastics extended their economic principles to practices they themselves thought immoral. Several Schoolmen concluded, in fact, that sinful or ignoble activities may be marketable and that those who were promised a reward for such activities are entitled to it and can even claim it in court.

One of the most colorful issues the Scholastics explored is whether a prostitute is entitled to keep the payments for her services. Their answer was cautious. As moralists, they condemned the act of prostitution. But they stated that such women do have the right to receive monetary compensation for their services. This attitude toward immoral acts put into practice Aquinas's principle that not every prohibition or recommendation of *moral* law needs a *temporal* law to enforce it.

St. Antonio of Florence, a 15th-century Dominican, noted that many sinful contracts are permitted for the good of the republic—although this does not mean that the acts are good. Prostitutes sin by prostituting themselves, he said, but not by receiving payment for doing so.

And, reasoned Jesuit Antonio de Escobar a century later, although the sale of a prostitute's favors is evil, it causes pleasure, and things that cause pleasure merit a price. Furthermore, a prostitute's fee is freely rendered—no one can claim to be forced to go to a brothel. Noting that most other Scholastic authors shared this conclusion, Escobar stated that we must reason in the same way when analyzing other types of profit obtained without fraud, lies, or extortion.

> Evil men would profit most if goods were commonly owned, said Francisco de Vitoria, a Dominican of the early 1500s.

This leads me to reflect upon the tragedy of drug abuse. I can only speculate that, confronted with the issue, these Scholastics would first explain that the abuse of chemicals can be poisonous and therefore should not be done, then proceed to ask the following questions: Should we ban the sale of poisons? If we ban the sale of dangerous drugs, would that prevent people from acquiring them? Who would profit from such prohibition? They would then proceed to recommend courses of action consistent not only with their belief in the sacredness of the human body but also with the conclusions of rational analysis.

As moralists, the Schoolmen were concerned with the question of how man should act. As economists, they understood that a "means" is that which serves the attainment of a goal and that the only way to judge the means is to see whether or not it is suitable to attain the end. Thus, when they opposed mandatory "family wages," it was not because they lacked concern for the family. Rather they saw that, from a legal and economic point of view, "need" could not be considered the basis for salaries. When they affirmed that prostitutes had a right to claim the agreed-upon price, they were not condoning immorality—they were stating that society would be impossible if the attempt were made to outlaw all vices.

Civil authorities, they said, should endeavor to balance budgets, cut spending, reduce subsidies, and encourage development by keeping taxes moderate. Navarrete, perhaps the original "supply sider," realized that excessive taxation could reduce the king's income, as few people would be able to pay such high rates.

The Late Scholastics opposed price controls on wheat because, as the Jesuit Luis de Molina wrote, "we know that in times of scarcity the poor can rarely buy the wheat at the official price. On the contrary, the only ones who can are the powerful and the public ministers, because the sellers cannot resist their requests." And they opposed import duties on food because they reduced the standard of living of the poor.

Today, when the church has again joined the economic debate, one of the few authoritative voices heard in the Vatican pleading for free markets is that of Cardinal Joseph Höffner, the Archbishop of Cologne and president of the German Bishops Conference and, not surprisingly, an expert on Scholastic economics. But the importance of the Scholastics extends beyond the church. F. A. Hayek, the Nobel laureate economist, has suggested that they can be considered the founders of modern free-market thought. All those concerned with the moral foundations of a free society can benefit from the teachings of these proficient theologians. ◻

Alejandro A. Chafuen is director of Latin American affairs for the Atlas Economic Research Foundation in San Francisco and author of Christians for Freedom: Late-Scholastic Economics *(Ignatius Press, 1986).*

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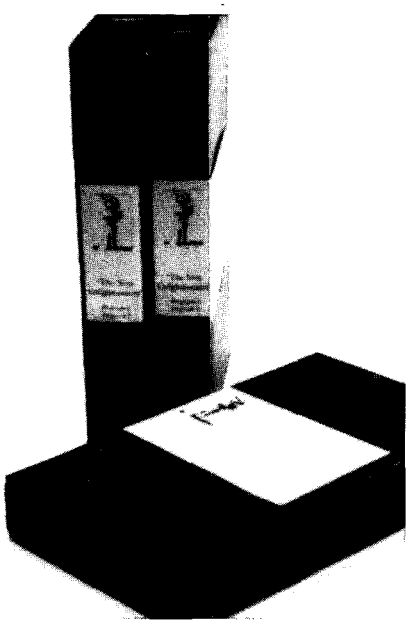

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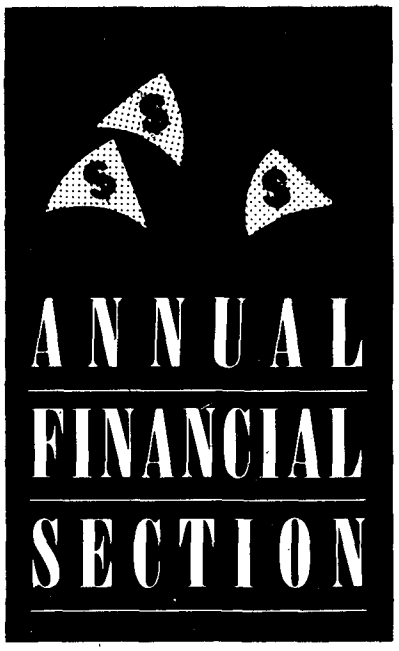


Bad Guys, Bad Buys

Self-defense against hard-money scams by Michael H. Ketcher

Sit down. This may shock you. But as a liberty-loving reader of REASON, you should know the truth: The government isn't the only one out to grab your money.

In fact, among those trying to separate you from your savings could well be those who are ostensibly your allies—hard-money coin and metal dealers, capitalistic stock and commodity brokers, and antitax offshore trust, banking, and fund promoters. It's amazing how people who are so skeptical of government—not to mention other institutions—can so often be taken to the cleaners by people who push the right ideological buttons.

But it happens, and far too often. It's not that every self-professed hard-money maven selling an investment is a swindler. Of course, they're in the business to do well for themselves, but most are probably honest businessmen and women. But, partly due to the unregulated nature of the hard-money investment industry as well as the trusting innocence of its philosophically inclined investors, crooks and incompetents abound.

Caveat emptor should be the watchword. Unfortunately, distinguishing the good guys from the bad guys is often impossible. You can't prove that someone is honest. When it comes to money, your best defense is to ignore the philosophical leanings of the promoter and protect your own interests. Maintain a healthy skepticism. If there is one rule worth following, it is never to assume anyone is honest. Always assume they will cheat you if given half a chance. There is absolutely nothing unfair in this. In fact, it's the very policy that nearly all the country's banks and brokerage firms follow when dealing with you. It's simply good business sense.

Beyond that, a few general guidelines will help. You many not want to use all of them all the time, but by using some you will considerably reduce your risk of being defrauded.

- Before dealing with any broker or dealer, ask what protections he offers against dealer fraud and bankruptcy. Make sure these protections go beyond relying on the firm's longevity and history of good customer relations. You should seek objective protections that have some teeth.
- Get independent verification of every material fact. Say, for example, you ask a dealer the question mentioned above. He may reply, Don't worry, your funds (or metals, or whatever) are insured. Your next step would be to get the name of the firm's insurance agent or a copy of the insurance policy. Determine from these exactly which risks are covered and which are not. One word of caution here: In many companies employees are bonded, usually to cover minor embezzlement. Management is rarely bonded. You're covered against petty pilfering by secretaries and salesmen, but you're not

protected against the president of the company flying off to Brazil with customer funds.

Another response you might get is, Don't worry, your funds are segregated from company assets or are in a trust account. Again, you can get independent verification of this simply by calling the firm's bank or depository institution and determining under exactly what circumstances company employees or officers might have access to your property.

Never assume anyone is honest. Always assume they will cheat you if given half a chance.

- Support your local dealer. If possible, it's almost always better to deal with someone close to home. Checking references is easier, and face-to-face meetings can foster friendly business relationships much better than cross-country telephone conversations. Also, if you ever do have problems, it's easier and cheaper to find people, file lawsuits, and file charges when you're in your home town.
- Where possible, avoid potential conflicts of interest. Do not get your buy-and-sell advice from the same people who are selling you investments, and do not purchase investments from the same people who are giving you advice.
- Avoid firms with hard-sell tactics. Firms with aggressive salespeople who badger you with frequent and unsolicited telephone calls, try to get you to buy immediately, and make promises that seem too good to be true are often the least trustworthy.
- Rely on yourself as much as possible. The more unsolicited advice you get from third parties, who may or may not have your best interests at heart, the more likely you will become involved in fraudulent or failed investments.

LET'S MAKE A DEAL

When buying or selling bullion or bullion coins (or any investment, for that matter), comparison shop. Prices can vary considerably among dealers. Call at least six, getting the full price, including commissions, insurance, shipping, and any other charges. Trade with the one who gives you the best price. Make sure he delivers immediately, that is, within two weeks.

The chief danger is that, should the dealer fail or disappear during the delivery period, you will likely lose your money. To prevent this, use what is called a sight draft, in which the metals are sent to your bank, the bank transfers payment to the dealer's bank, and upon your approval of them the metals are released to you. Most dealers think sight drafts are a nuisance, but the better ones will grudgingly provide them on larger orders for a slight extra fee.

The other alternative is cash and carry. It's more anonymous than mail order, but it's also more expensive in states where a sales tax is charged on precious metals. For help in avoiding these, get a copy of the November 1986 issue of Mark Skousen's newsletter *Forecasts & Strategies*, available for $5.00 from Phillips Publishing Co., 7811 Montrose Rd., Potomac, MD 29854. It lists those states that exempt precious metals from sales tax.

The best rule to follow in storing bullion is *don't store with a dealer.* For most people, storing the bulk in a safe deposit box, with perhaps a small amount well-hidden in your home, will suffice. Larger investors who prefer foreign or private warehouse storage should see Chris Weber's *Complete Guide to Safe Storage of Silver & Gold*, available from *Silver & Gold Report*, P.O. Box 510, Bethel, CT 06801. At $68, it's expensive but perhaps the only report that explores the many alternatives impartially and in detail.

Margin, or leverage, schemes are popular with precious metals investors because of the enormous profit potential. But the dangers are often understated.

One who knows the dangers and doesn't understate them is Bob Meier, a research consultant for brokerage and money management firms and the former head of his own commodity trading firm. According to Meier, the emotionalism of precious metals combined with leverage creates such a heady brew that "only one in 100 investors can use leverage in precious metals successfully."

Leverage comes in several varieties: commodity futures, commodity options, extended or deferred delivery programs, leverage contracts, and bank loan programs. None of these is appropriate for most investors. If you think you're that one in 100 who can handle leverage in precious metals, then stick with commodity futures, where your funds are protected from fraud and bankruptcy in a trust account and you aren't charged the high interest rates or excessive fees of other vehicles. Commodity options are also appropriate for the more sophisticated speculators—just comparison shop to avoid being overcharged by one of the many boiler-room operations. Understand all risk disclosure documents thoroughly.

With *rare* coins, the biggest problems are overgrading and overpricing. The latter can be avoided by simply keeping on top of the market. To do so, subscribe to the weekly *Coin Dealer Newsletter*, P.O. Box 11099, Torrance, CA 90510. Many dealers use this as a guide to pricing their coins.

The best way to avoid overgrading is to learn how to grade coins yourself. This can take years, especially if you try to learn how to grade all the types of U.S. coins on the market. The most investors can do is concentrate on a particular popular series, such as silver dollars or U.S. commemoratives.

The best way to learn is to develop a friendly business relationship with dealers in your area. Visit their shops. Ask them questions about what makes a coin a certain grade. Examine the coins they have on display. Tell them you want to learn about grading and the more helpful they are, the more business you'll give them.

Dealers will tell you that they learned to grade by simply examining hundreds, even thousands, of coins. By doing the same before you buy a single coin, you can develop expertise on your own. Numerous books, periodicals, and grading guides available from coin dealers can also help.

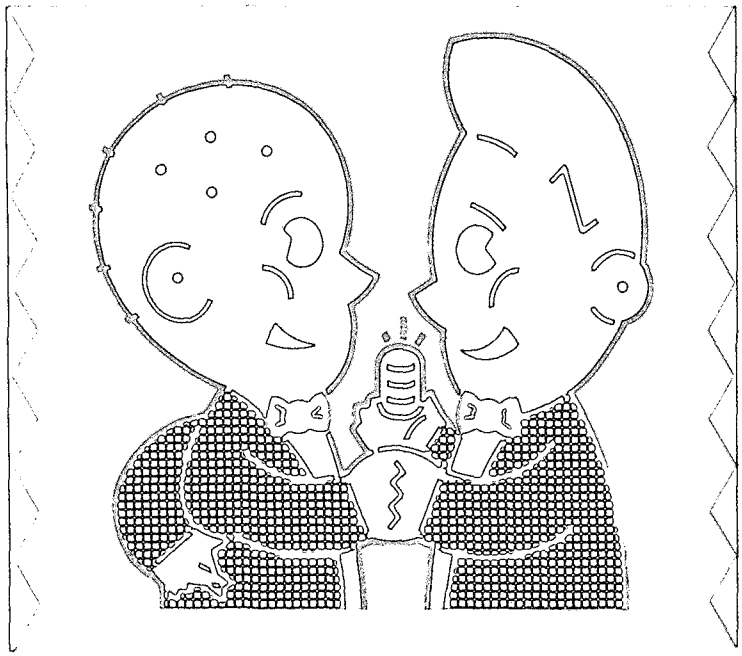
The alternative to becoming an expert is to buy your

coins from a dealer who seems trustworthy and, to keep him honest, have those coins evaluated by an independent grading agency. I prefer those firms that have a 30-day approval period, during which they will either refund your money or replace your coins. This gives you sufficient time to get the coins graded and return them if they're unsatisfactory.

Several grading agencies have popped up in recent years. All considered, the American Numismatic Association's grading program is the best. It's the only one that has withstood the test of time, has almost universal industry-wide acceptance, and can grade your coins quickly enough. It can also authenticate your coins, thus protecting you against counterfeits. For nonmembers it charges $12.50 a coin to authenticate, $12.50 a coin to grade, and $1.00 per $1,000 in value to insure. The address is: ANACS, 818 N. Cascade Ave., Colorado Springs, CO 80903.

You need not have evaluated every single coin you buy from a particular dealer. But you will certainly want to spot check your initial purchases, as well as your purchases over time, just to make sure the dealer stays honest.

Related to rare coins are manufactured rarities—coins or medallions produced in limited editions, often by well-known mints, and sold at enormous premiums. Although a few of these do well, most soon fall below their issue price. Secondary markets are thin at best. It's generally better to avoid them altogether and stick with the proven rarities —coins at least 10 years old.



GOLD DIGGERS AND GURUS

Mark Twain has been widely quoted as saying that a gold mine is "a hole in the ground surrounded by liars." With many of today's penny mines, you don't even have the hole in the ground. But you do have the liars.

Nearly everyone who recommends penny mining stocks is either a broker selling them or an investment advisor who has a position. In fact, Twain, who was perhaps the first hard-money investment writer, describes in his book, *Roughing It*, a trunk full of gold mining stocks he received as favors for writing articles about those firms. Not much has changed since Twain's time. It's rumored in the industry that many of today's best-known investment newsletter writers will gladly endorse a particular mining stock in exchange for a few thousand shares. All of which makes reliable, impartial information about penny mining stocks nearly nonexistent.

Still, rises of several hundred percentage points are not uncommon in these shares, which range from a few cents to a few dollars in price. They're a tantalizing opportunity for high-rolling investors. The most important defense here is, first, don't gamble with more money than you're willing to lose. Second, use the approach outlined by Norman Lamb in his book, *Small Fortunes in Penny Gold Stocks*: Buy a selection of 10 or 20 of these stocks at random, hold them for a few years, and hope that the gold market moves up. If it does, your losers probably won't fall very far, but your winners will likely soar. Unfortunately, the book is out of print. Check your local library or used bookstore.

The alternative is to make penny mining stocks your hobby. Subscribe to several industry publications and tout sheets, visit the mines, talk to the promoters and geologists, open accounts at several brokerage firms, and, in the words of one occasionally successful penny stock investor, "compare one liar against another."

For glamour and excitement, who doesn't want a foreign bank account in an exotic locale, if for no other reason than to brag about it? Of course, that defeats the entire purpose of having one. But, sadly, that's the main reason many people get one.

There are really only two reasons for foreign investments: One is to diversify into harder currencies; the other is to keep some of your assets out of the political jurisdiction of the U.S. government.

For the first, you need not go offshore. You can obtain currency diversification in other ways, such as putting money in U.S.-based stock, bond, or currency funds that invest in foreign markets. It's much safer than going offshore, where regulatory controls are more lenient and customer protections often nonexistent.

The second reason, political diversification, is generally only appropriate for larger and more sophisticated investors. The best place to start is with a major foreign bank, such as a Swiss, Austrian, or British bank. Their capable and experienced officers can help you choose other offshore investment vehicles.

Be especially wary of the more widely promoted off-

ILLUSTRATIONS • JULIA CRUZ

shore investment entities, such as small mutual funds, trusts, or start-your-own-bank promotions, especially those that are incorporated in high-profile tax havens like Panama or the Turks and Caicos Islands. These are usually headed by some flashy, charismatic, even pompous hard-money or antitax guru who often claims a phenomenal track record and may suggest he has all the answers to your problems with the Internal Revenue Service. Many firms fitting such a pattern have turned out to be nothing more than exotic Ponzi schemes.

IF YOU GET BURNED

If you have problems with a broker or dealer, such as a missed or slow delivery, a mix-up in your order, or a late or lost payment, it could be a simple mistake or missed communication. Or it could be indicative of more serious problems, such as poor cash flow or even fraud. You should view such irregularities as an urgent warning sign and take immediate action.

Unfortunately, most investors approach it wrongly. They think that if they're pleasant and cooperative, these people will expedite a solution. Wrong. In the cases we've seen, it is almost always the noisiest, most troublesome investors who get paid first.

Don't be nice, be a nuisance. Call the president of the firm and demand immediate satisfaction. If you don't get it, complain to the Better Business Bureau, the police, the state consumer watchdog agency, the industry trade organizations, the local consumer TV or radio reporter, the media outlets through which the firm advertises, and anyone else who can exert pressure on the firm. Don't write letters; it takes too long. Use the telephone.

See if there are any private agencies through which you might arbitrate. At this point, you should probably hire an attorney—and learn a whole new set of guidelines: protecting yourself from libertarian lawyers. But that is another story. ◻

Michael H. Ketcher is associate editor of INVESTigate: The Journal of Investment Protection. *He's been ripped off more than once himself in his 15 years as a hard-money investor.*

The Young and the Investless

Maybe you shouldn't buy a house—but you'd better do something. by Doug Thorburn

Baby boomers are at the time in their lives when they have a host of financial decisions to make. They wonder, Should we buy a house, or should we rent? How much can we afford? Should we begin to invest for our children's education? Or should we invest for ourselves instead? Should investments be made with only retirement in mind, or should they be flexible enough to be usable for, perhaps, buying or starting a business later in life? What kinds of investments are appropriate for these goals? What kinds of risks should we take? (Or should we forget all this and just have a good time?)

There are no "correct" answers to these questions. It's a matter of judgment and probabilities. Furthermore, everybody's financial and psychological profile is different, so everybody's answers will be different, too. But a few general guidelines are worth considering.

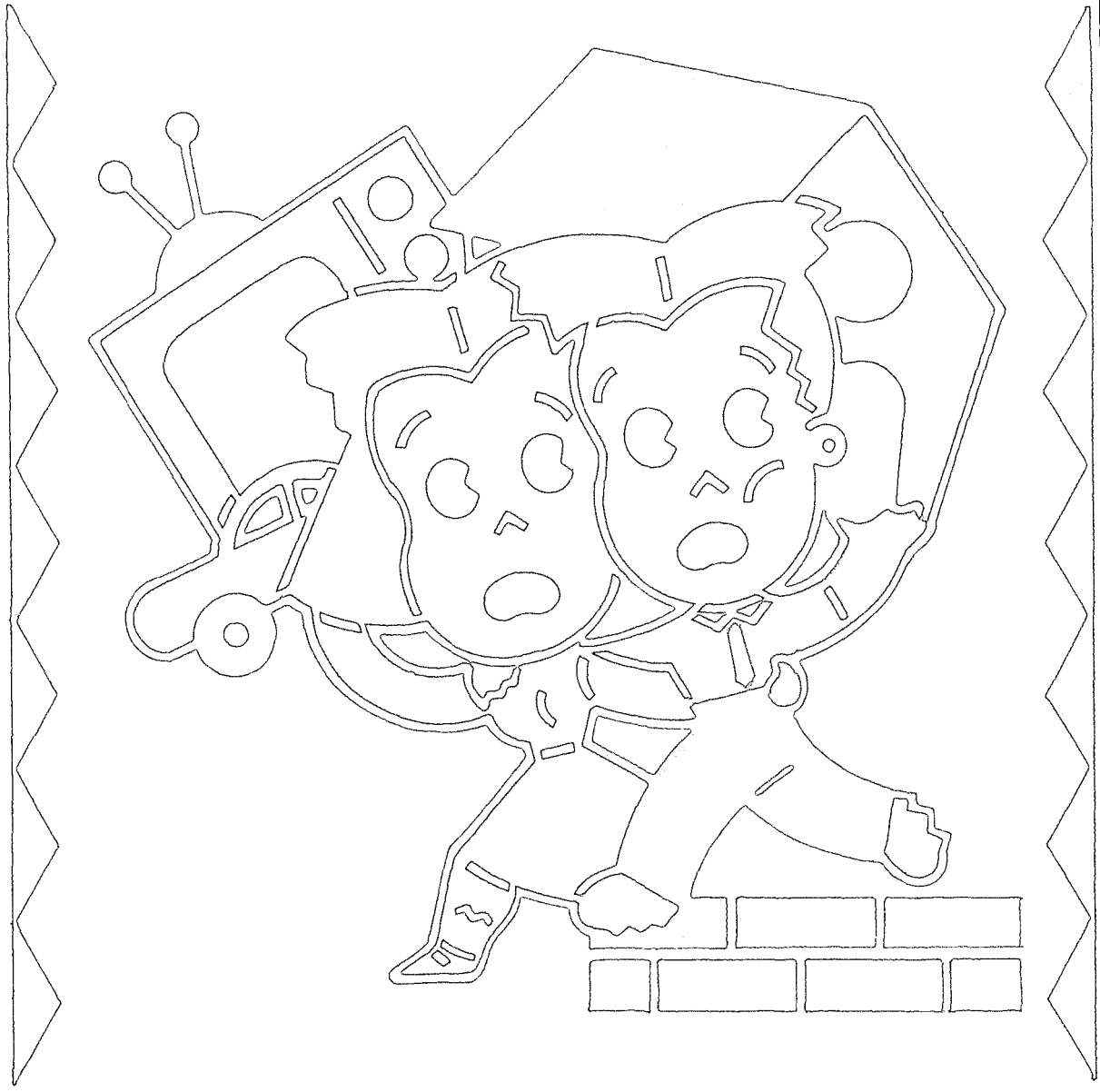
TO BUY OR TO RENT

Many young couples' primary goals are to have babies and to have a home for the babies to grow up in. A home lends a certain stability to one's life (although I'm not sure about the babies), but, contrary to popular opinion, it's not appropriate for everybody to own one.

As a tax and financial planner, I have many clients who ask me not *whether* they should buy, but *how much* they should spend. But the "whether" must be discussed first.

One young couple wanted to buy so badly that they borrrowed the down payment on their charge cards (the banks don't allow that, but if you accumulate cash for several months by living off the cards, you get around the rules). Unfortunately, two years later the husband lost his job and the couple (with baby) got a divorce. They tried to sell the house for enough to retrieve their down payment, made the mortgage payment for a few extra months, and eventually realized that not only had the price of the house not gone up enough to pay the selling costs, it had actually fallen. They lost the house, along with their down payment, sadly discovering the downside effect of leverage. Because of bankruptcy, the cards were never paid off.

The idea that everyone should own his home became sacrosanct in the inflationary 1970s. Baby boomers grow-



ing up with inflation learned that a dollar spent today buys more than a dollar spent tomorrow. That idea fueled a real estate boom and forced prices to valuations which, combined with the high interest rates of the early '80s, made no economic sense. When real estate that cost $1,500 a month to own could be rented for only $600, it was obvious that, without 60 percent marginal tax rates (and full deductibility for all losses if the buyer was an investor), it was far cheaper to rent than to own.

The real estate boom, however, led most investors to believe that the price of real estate could do nothing but go up. When people thought prices would never be lower, those who wanted to buy did so—until no buyers were left. Demand slackened, and prices fell. Nominal prices for real estate in Southern California, for example, stayed flat or decreased by as much as 30 percent from 1980 to 1984. Inflation-adjusted prices fell 10-50 percent, and even more in many resort areas. Other parts of the country took similar hits. An old saying on Wall Street proclaims that "value will out," meaning that fundamental value will eventually prevail in any market. Sometimes it just takes time.

Those who thought they'd be better off renting than buying in the early '80s were considered foolish. Rent money was "money down the drain." The problem with owning, however, is that most of the money you pay the bank goes toward interest, not the principal. If you want to increase your equity, you can prepay the mortgage or shorten its life, but that does not make your investment grow in value. In fact, it puts you at greater risk if prices drop, because you lose all your investment before the bank loses any. If the price of the property doesn't increase, you not only don't make any money, you lose the buying and selling costs. Your rent money no more goes down the drain than mortgage money paid to a lender on a property with steady or falling value.

Among the many factors to consider when deciding whether to rent or buy, first and foremost from a financial point of view is the after-tax cost of owning versus renting. The cost of ownership includes interest on the mortgage and property taxes. It also includes many factors totally overlooked by most people: the cost of insurance; the risk of loss for problems that are either uninsurable or not covered, such as earthquakes, floods, and

insurance deductibles; the costs of maintenance and depreciation; and the opportunity cost of the down payment.

The cost of interest and taxes must be determined on an after-tax basis, using your marginal tax rate (the rate on your last dollar of income). The maximum tax bracket will (supposedly) be 33 percent in 1988 (not 28 percent, as the government has fraudulently advertised). The after-federal-tax-deduction cost (the real cost) of state income taxes must also be added in. For most individuals in a position to purchase their first home, the maximum bracket will be about 25-35 percent. Multiply that bracket by the taxes and interest to determine the tax savings; subtract that savings from out-of-pocket costs and you have the real net cost.

Another complicating factor, however, is often overlooked even by experienced tax specialists. Many individuals will not get the full benefit of all interest and tax deductions. You can deduct the greater of the actual deductions *or* the standard deduction from your taxable income. The standard deduction for married couples will be $5,000 in 1988 ($3,000 for singles). This means that a couple will need $5,000 in itemized deductions (which are severely limited under the new tax law) before the home mortgage and taxes *begin* to save anything on the income tax bill.

Once you've figured the costs of interest and taxes, you must add in the other costs of ownership. Home maintenance involves recurring costs for such things as pest control, painting, gardening, and the value of your labor if you do the work yourself. Real depreciation—the wear and tear on roofs, carpets, even plumbing, heating, and wiring systems—can be very expensive. Maintenance and depreciation costs generally average 1-3 percent of the value of the property per year, depending on age and condition. That's $85-$250 per month on a $100,000 property.

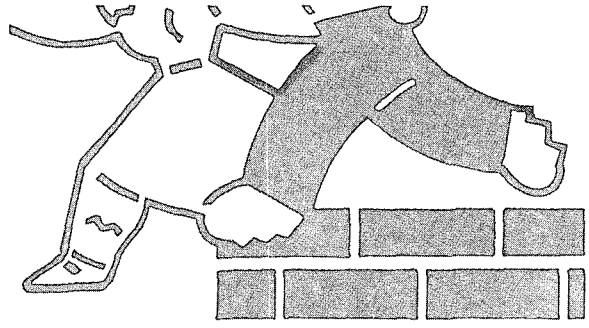
Don't forget the opportunity cost of the down payment—the value of the money if you had done something *else* with it. The down payment, if invested, might earn only 3-4 percent per year (after taxes) at current interest rates, but that same money might earn as much as 20 percent (sometimes in three months) in the stock market. In addition, many people in effect borrow their down payment again after they buy, in order to purchase furniture, appliances, improvements, etc. The cost of borrowing is still as high as 18 percent, and under the new tax law, the interest may not be deductible (unless, in certain circumstances, you give the lender a trust deed on the house).

Your rent money no more goes down the drain than does money paid to a lender on a house with a steady or falling value.

Furthermore, if you spend $20,000 on a down payment, that's $20,000 less that you could put in a diversified portfolio inherently safer (and much easier to get at in an emergency) than one very illiquid house. Because of all these factors, I usually figure an after-tax opportunity cost of 12 percent on the cash down payment, including closing costs.

The total of all these costs of ownership must be compared with the cost of renting; then other factors must be considered. One advantage to owning is avoiding the risk of being forced out by a landlord at an inconvenient time. In addition, home owners don't have to worry about rent increases. But because the nationwide vacancy rate has risen over the last year, the potential for rent increases is currently very low in many parts of the country.

Personal stability is yet another factor. How long are you going to stay in your new home? The shorter the stay, the greater the risk. Before any money can be



made in property, the costs of buying and selling—generally around 10 percent—must be recovered. Therefore, the price must rise by 10 percent before you *begin* to make any money. People who change jobs frequently, single persons who might get married, and people with growing families are at great risk.

If you're relatively unstable in terms of where you live, or in the size of the house you currently need; if the cost of renting in your area is low relative to the total cost of ownership; if the area isn't growing, or, even if it is, if plenty of land is available for new construction (thus keeping a bearish influence on prices); then renting may be preferable to owning.

SAVING FOR THE DOWN

All right, you've decided to buy anyway. You either have the money, or you must borrow or save it. (If you must save it, you'll have to look at the situation all over again when you're ready to take the plunge.)

Saving for a down payment typically takes one to five years. There are only two good things to put money into over the next couple of years—money market funds and stocks. I like stocks because, if Elliot Wave technician Robert Prechter is correct, this bull market has more to go. And I like money market funds for safety, since they invest in a wide array of extremely liquid short-term debt.

Money market funds are virtually riskless in the short term, while stocks are very risky unless you're an expert market timer and you know how to cut your losses. Stocks, however, do better in longer time horizons. Over time frames of 15 years or more, stocks have *always* done better than money markets; stocks are riskier over three-to-five-year time frames, but the odds are still with them. Over shorter time frames, money markets are preferable, even at today's low rates.

Because gold, silver, and coins do not produce income

and do not by themselves increase wealth (they're merely a store of wealth), they are vastly inferior to stocks. Stocks represent ownership of corporations that produce income and either retain it for the internal growth of the company or distribute it in the form of dividends.

REAL ESTATE ASIDE...

If you already own—or you've decided to rent indefinitely—where do you put your excess cash? *What* excess cash? It's all being spent on vacations, kids, toys (for big kids)...there isn't anything left! All right, time to Arkad.

Arkad was the wise old seer in George S. Clason's classic, *The Richest Man in Babylon,* who admonished the young to keep 10 percent of all they earn. In other words, invest in your future *before* you spend your money. That's how the IRS does it to employees—it takes your money before you even see it, and magically, you never miss it. You can do the same thing to yourself. Invest a percentage of your earnings first, then live off the balance.

If you're young enough, investing 10 percent of what you earn will probably be enough to provide for your old age. If you're 20 years old, for example, a dollar, at a 10 percent rate of growth, grows to $72.89 by age 65. If you're 30, that dollar grows to only $28.10. At 40, it grows to $10.83, and at 50, to $4.18. A 50-year-old, if he has little or nothing saved, should probably invest 25 percent of all he earns and hope he does better than average. Don't count on unsocial insecurity to provide you with the retirement you probably deserve.

The time frames for retirement and for children's education are usually substantially longer than for down payments, making stocks the investment of choice. This conflicts with popular opinion, exemplified by the high percentage of people who invest their IRA funds in banks rather than stocks and mutual funds. If you're saving for retirement 30 years down the road, for the kids' education in 10-15 years, or for anything else with a long time frame, stocks are generally the way to go.

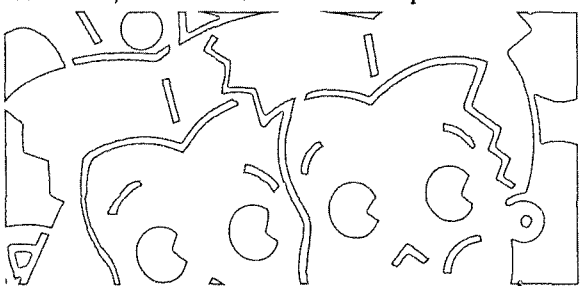
Because stocks are extremely difficult to pick, and it's usually inefficient to buy individual stocks and properly diversify, pick a good stock mutual fund with a long-term track record. Don't pick last year's best-performing fund, since such funds often do very poorly the following year.

You can find out which funds have superior track records by looking them up in *Barron's* quarterly Lipper report on mutual fund performance, or by contacting Weisenberger Financial Services (a division of Warren, Gorham, and Lamont, 210 South Street, Boston, MA 02111). A good broker (hard to find) can give guidance, but you'll pay a commission. If you want to do it yourself, numerous newsletters specialize in recommending mutual funds and, in some cases, tell when to invest in them, such as Dick Fabian's trend-following *Telephone Switch Newsletter* (P.O. Box 2538, Huntington Beach, CA 92647) and Robert Prechter's *Elliot Wave Theorist* (New Classics Library, Inc., P.O. Box 1618, Gainesville, GA 30503).

If you can save for retirement inside a deductible retirement plan, do it. Many companies have 401(k) plans that allow you to decide, within certain parameters, how much to invest. Bear in mind that there is now a 10 percent tax penalty for early withdrawal from all retirement plans, not just IRAs, in addition to the regular income tax. Don't invest nondeductible dollars in such plans, since, when you pull out the money, a pro-rated portion will be deemed to be from deductible dollars and thus fully taxable (with penalties if you're under age 59 1/2, unless you're disabled or dead, which isn't a good way to avoid penalties).

There are only two good things to put money into over the next few years: money market funds and stocks.

If you can't invest in fully deductible plans, consider life insurance, which has undergone a complete metamorphosis over the last five years. Consumer dissatisfaction with whole life insurance finally prompted insurance companies to completely redesign their policies. We now have a variety of sometimes excellent investments disguised as life insurance. Most are still interest-rate-based, but variable interest rate options are available. In addition, several variable stock-market-based policies are available, with tax-free switching privileges inside the policies.



Single-premium whole life insurance (SPWL) has some of the best advantages of other investment options. Like a money market fund, it has no up-front sales charges. Like a CD, it has a guaranteed interest rate (if you want it). Like a home, the value of SPWL can grow tax-free, you can borrow tax-free against that growth, and if you die the growth is never subjected to income taxes. And like a municipal bond, the earnings aren't taxed as long as you keep the policy.

Since single-premium products currently require a minimum investment of $5,000, and you generally can't add to them, universal life insurance may be better for those who want to periodically invest smaller amounts. Universal life insurance has many of the advantages of SPWL, but it usually costs a bit more to borrow out of the policy. Universal also has minor sales charges, fees, mortality charges, and expenses that SPWL products don't have.

So buy insurance—or deductible retirement funds or mutual funds or whatever. What's important is to make investment decisions that suit *your* needs. Study your options and make a plan. With luck, when you reach your golden years you'll be able to buy your dream toys. ◧

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Shrink the State, the Money's Great

How to profit from privatization

by Glen Feighery

One of your greatest investment opportunities may be the result of a mistake. That mistake was assuming that government could, even should, operate a wide variety of businesses, from running railroads to delivering the mail. Predictably, it hasn't worked—at least not well.

Now, driven by constituents' demands for more-efficient services and by a pressing need to cut costs, the federal government and scores of local governments across the country have begun to sell off some services to the private sector. In other cases, governments continue to pay for services but hire private contractors to provide them.

This process of privatization (or, in the case of contracting out, quasi-privatization), represents an enormous opportunity to invest in freedom: the freedom of consumers to choose who will provide a particular service and the freedom of companies to compete for business. It has practical appeal for investors, too.

"Privatization offers the sophisticated investor a whole new menu of financial opportunities." says Philip E. Fixler, Jr., director of the Reason Foundation's Local Government Center, which maintains a directory of companies involved in privatization. These investment opportunities, notes Fixler, include utility and infrastructure projects, profit-making health and human services, and contract services to government.

The last few years have brought a steady stream of initial public offerings (IPOs) by companies involved in a wide range of privatization activities. Most dramatically, the federal government's sale of Consolidated Rail Corp. (Conrail) in March raised about $1.65 billion—making it the largest IPO ever by a U.S. company. Demand for the new stock issue was so heavy that the opening price of $28 a share was some $6 a share higher than had been expected, demonstrating investors' eagerness to participate in privatization.

Unlike Conrail, which is now traded on the New York Stock Exchange, most privatization investments will be found in the over-the-counter market. Some examples: Corrections Corp. of America, a prison-management company based in Nashville, Tennessee; Judicate Inc., a Philadelphia-based firm that lets clients bypass the court system to resolve disputes; and Municipal Development Corp., a New York City company that develops and manages infrastructure projects such as water facilities and has even proposed a private toll highway (see Trends, April 1987). Each of these companies is listed in one of the *Wall Street Journal*'s daily over-the-counter stock tables.

Of course, there's no such thing as a sure investment bet. And involvement in privatization per se is no guarantee that a company is going to do well. Moreover, many privatization ventures are performed by small firms that do not issue stock. They may provide opportunities for limited partnership activity, but this requires greater capital involvement and carries greater risk than buying stock.

And in assessing stock buys, "you can't make a blanket statement on what's going to be profitable and what isn't," cautions a public-finance analyst with a New York brokerage house. "This is a deal-by-deal business, and you need to apply your own rules."

How much risk are you willing to accept? Do you want to invest in companies that do only privatization work—"pure plays"—or would you be interested in large diversified business, such as ARA Services Inc. or Wackenhut Corp., that include some privatization work among their operations? Are you a long-term investor looking for capital gains, or do you want the assurance of regular dividends? What industries are you interested in?

"If you believe that privatization is going to grow, pick a specific area or industry, and call brokers about this," advises one long-time privatization watcher. While most brokers have probably never heard the term *privatization*, they do follow specific industries and can give you stock information if you ask the right questions.

Once you've decided on your personal investment criteria, it's time to sort out the good deals from the bad. Perhaps the most important consideration is politics. In some cases—prison services, for example—private companies work under contract with a state or county government. And such contracts are subject to change. Even if such a service is provided directly to consumers (for example, individuals or neighborhoods contracting with private garbage collectors), politics may still intervene, particularly if disaffected customers grumble to the local government.

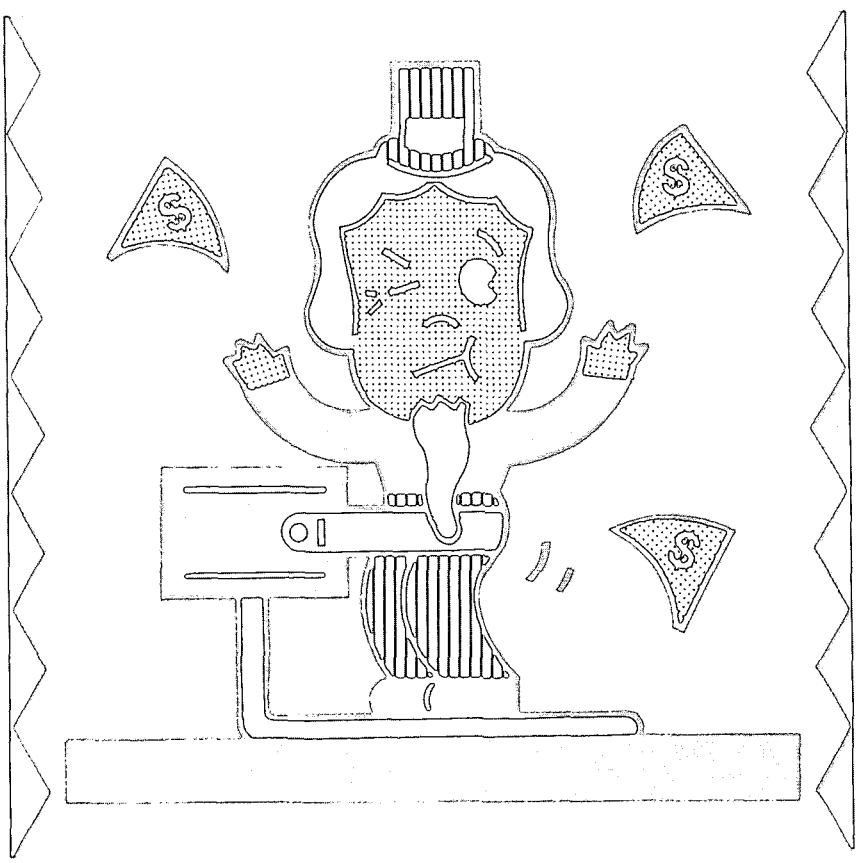
One hedge against political disruption is diversification. If a company has a broad customer base or offers a broad range of services, the loss of one contract from a political dispute can be offset in other areas. One such company, says Tom Postek, an analyst at William Blair & Co. in Chicago, is Ontario-based Laidlaw Transportation Ltd. Laidlaw collects and disposes waste for commercial, industrial, and residential customers and also runs a school bus service. The company, whose stock is traded over the counter, operates from a broad geographic base, serving customers in 18 states and six Canadian provinces, and for the fiscal year ended August 31, 1986, it earned a net income of $66.2 million (Canadian) on revenue of $717.9 million (Canadian).

Although school buses and garbage trucks may seem

an improbable combination, both represent businesses with steady growth potential as the privatization trend accelerates. "School districts do a lot of things already without worrying whether their buses are going to start in the morning," says Postek. And a large-scale company like Laidlaw, which has been buying up smaller bus companies, seems to have an advantage in the school busing market. "Most school bus contractors are small, and it's hard for large school districts to get someone to take that over," he says.

As for waste collection, Postek notes that "one-half of housing units are served by contractors rather than by municipalities," providing a strong precedent for local governments that are considering privatizing their garbage collection. An added incentive: it saves money. Postek cites a Columbia University study showing that private companies can collect customers' garbage for about 40 percent less than government agencies can. "In an academically rigorous way, it confirmed what many people had suspected," he says.

Numerous waste-management companies, including several that handle hazardous waste as well as garbage, are publicly traded. But the politics of hazardous waste can be hazardous for the investor, making research imperative. Fortunately, both the business press and brokerage houses follow such New York Stock Exchange companies as Browning-Ferris Industries Inc., of Houston, and Waste Management Inc., of Oak Brook, Illinois, and can be good sources of information about not only specific companies but also the waste-management industry in general.



Another promising area for investment is the record-keeping business. Governments have only recently begun to farm out this sort of work, so a large market remains untapped, waiting, quite possibly, for companies' offers to take these chores off government hands. Much of the labor involved in record keeping can be computerized, making it more efficient. But governments frequently fail to automate, either because bureaucrats fight for their jobs or because voters hesitate to allocate the money needed for new capital equipment.

The bottom line is positive for the private sector. "There's a tremendous amount of business out there. You have opportunity for high growth," with a commensurate rate of return, says Phil Orlando, an analyst at the New York firm Donaldson, Lufkin & Jenrette.

He is particularly bullish on Dallas-based Cronus Industries Inc., which recently restructured to focus strictly on managing government information, paring away unrelated businesses like metal buildings. This move freed the company's energies to drum up new government contracts, Orlando says.

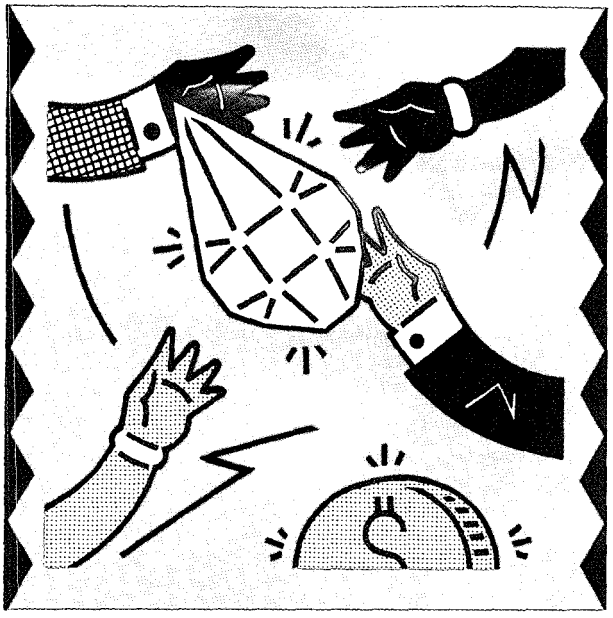
Cronus now has three core businesses: record keeping for county governments, election services, and financial and accounting services for cities and counties. Its customers include major jurisdictions like Los Angeles County, Chicago's Cook County, and Dallas County. It also serves smaller cities in Minnesota and Alabama.

Cronus's approach has two distinct advantages, Orlando says: It takes advantage of strong demand and operates in a market with lower turnover. Orlando estimates the industry turnover rate at less than 5 percent—which means those companies with contracts represent potentially strong investments.

"The most impressive thing about record keeping is that Cronus will do it and make a profit, and the government that's contracting out can also profit—without carrying that overhead," says Orlando. "So everyone benefits."

Including the consumer and the taxpayer. Which, ultimately, is why numerous opportunities to take over government activities promise to be a strong source of economic growth. With advance study, money to invest, and some luck, you can strike a blow for freedom—and laugh all the way to the bank. ◻

Glen Feighery is a business reporter with the Jackson, Mississippi, Clarion-Ledger.



Chaos and Commodities

What does South Africa's turmoil mean for gold and other goodies? by Mark Tier

South Africa is experiencing a political crisis, to the confusion of many investors. But, in the words of the now well-known Chinese saying, "Every crisis brings opportunity." The crisis causes people to panic, to sell assets at fire-sale prices. Investments are pulled out; people leave and take with them whatever they can retrieve.

And so the opportunity to buy at bargain prices.

Of course, just because something is a bargain now doesn't mean its price won't fall even lower later on. A couple of years ago, real estate in Beirut seemed an excellent opportunity. Since then, the situation has deteriorated even further. Perhaps that market has now reached its ultimate bottom—but who knows?

Any crisis offers two different kinds of opportunities: investments that will profit if the crisis worsens, and investments (such as Beirut real estate) that will improve if the crisis passes.

Gold, platinum, and diamonds are the investments that would rise in price were South Africa's crisis to deepen significantly, cutting the supply of these commodities and thereby raising their prices. By contrast, just about any investment located in South Africa would benefit if a peaceful solution results. This latter category includes South African gold mines (whose operations would likely be disrupted by political turmoil), stocks in South African companies, real estate, and businesses in that country.

WHITHER SOUTH AFRICA?

The situation within South Africa is too complex—there are too many conflicting forces—to make a firm prediction about the future. There are basically four scenarios:

- The current indecisive status quo could continue for many years.
- Far right Afrikaners could gain dominance and impose a white-ruled totalitarian state.
- An African National Congress–led violent uprising could result in a black-ruled totalitarian state or some other socialist system (which in many ways probably wouldn't be much different from the current controlled economy); during the interim, of course, investments in South Africa would become temporarily valueless.
- There could be a peaceful solution along the lines of Leon Louw and Frances Kendall's book, *South Africa: The Solution*. (The U.S. edition will be available shortly from Laissez Faire Books.)

Unfortunately, the South African state is very well entrenched, very powerful within the country, and very effectively pursuing a policy of divide and rule amongst the white and nonwhite communities. The chances are there will be very little radical change in South Africa in the next two to three years.

Any judgment of the political risk associated with an investment can be no more than an educated guess, however. And whatever probabilities one places on each possible scenario, there always remains a risk, however small, that a political explosion would cause a 100-percent loss of one's investment.

THE MORAL QUESTION

Investing in South Africa is hardly fashionable these days—one of the reasons there are so many bargains available. It's important to consider the moral questions before making any investment there. The system of apartheid is an anathema, and I have no desire to support it in any way, shape, or form. So the question becomes not merely, Which investment will make the most money?

but, Which investment will also further change toward a freer society? It's insufficient, if true, to say that any investment you make will have an infinitesimal effect upon the conditions in South Africa—or anywhere else for that matter.

As one observer put it, "the choice for South Africa is between Leon Louw and chaos." Anything that will delay the chaos will increase the chances of a Louw-style solution. Sanctions and disinvestment will have the reverse effect of those intended; they will contribute to the destabilization of South Africa, increase the likelihood of a violent uprising, and reduce the chances of a peaceful settlement. On this basis I have no moral doubts about investing in South Africa.

Indeed there is one form of investment, which I'll come to later, that combines the desire to make a profit with the desire to help effect peaceful, *libertarian* change in South Africa. Then you can have the best of both worlds: make money by promoting freedom.

WHEN TO BET ON GOLD

But what of more conventional investments—platinum, gold, and diamonds? Clearly, these three commodities would increase in price most should the crisis worsen. Already, political speculation has led to dramatic fluctuations in their prices.

If you want to bet on collapse in South Africa, it would be best to buy gold, either bullion or coins. Should the country fall into chaos, gold production would undoubtedly decline, cutting the international supply and raising prices. (The same would hold for platinum and diamonds, but I advise buying them only for diversification—if you feel you already own *too much* gold.)

The nature of South Africa's gold mining operations makes a drop in production an even more likely consequence of political upheaval. South Africa's gold is in "reefs"—long, thin veins of ore that run up to two or three miles underground. Because of the reefs, most South African gold mines consist of a deep, vertical access shaft, with dozens of horizontal tunnels leading to the mine face. Everything must go in and out via this single shaft: miners, equipment, ore, power, air conditioning, and most important of all, pumps to prevent the mine from flooding.

Such a mine could be closed down for years by a small terrorist action at that single crucial point: the ground level access to the mine shaft. The major problem would not, by the way, be clearing the access shaft of rubble; it would be clearing the entire mine of *water*.

If just one such mine was closed this way, the price of gold would soar. And if such sabotage did occur, chances are it would affect gold, not platinum, simply because there are more gold mines. (Unless, of course, the ANC has invested all its spare cash in platinum futures.)

Investing in gold doesn't necessarily mean buying South Africa's own gold coin—the Krugerrand—but it may. And that decision again requires some consideration of international politics. The Krugerrand has been the major target of sanctions around the world. Countries such as the United Kingdom and Hong Kong, which have not followed the United States in imposing broad sanctions, have banned the import of Krugerrands.

Last year, in an emotional overreaction to the threat of sanctions, the price of the Krugerrand fell to the point where in several months of 1986 one could buy Krugerrands for less than the price of bullion itself! While the Krugerrand's premium over its bullion value has recovered, it still remains far lower than either the American Eagle or the Canadian Maple Leaf and is on a par with the Austrian corona.

As a result of the Krugerrand's dwindling popularity, fewer dealers in the United States and Canada now make a market in the coin, preferring to invest their inventory dollars in the Eagle and Maple Leaf. So Krugerrand investors may find it difficult to sell their coins—at least for a good price.

The two markets where there is no liquidity problem in Krugerrands are Switzerland and Hong Kong. So unless one is into buying 400-ounce bars of gold for that portion of one's assets held in a Swiss bank account—and I believe everyone should have an account of that kind—you will get more gold for your money by buying Krugerrands than any other coin. The downside risk of owning any bullion coin is the melt value, a maximum of one percent under the price of gold. If worse comes to worst, you can sell Krugerrands for melting.

GOLD STOCKS: WHAT LIES AHEAD

Just as the premium on the Krugerrand was knocked down by the market last year, so South African gold stocks fell as foreigners dumped South African investments. The South African crisis affects the outlook for South African gold stocks in two ways: The danger that a particular mine—probably the single South African stock you happen to own—will be shut down indefinitely by terrorist action; or, as a London broker once put it to me, any significant rise in the price of gold will increase the price of South African gold stocks by far less than that of other gold stocks, for the simple reason that the international market, pessimistic about South Africa's future, has discounted the value of the South African stocks to zero in about five years' time.

If you want to bet on collapse in South Africa, it would be best to buy gold, either bullion or coins.

Nevertheless, South African gold stocks are bound to boom for four reasons:

- Because of the coming—and, I believe, *dramatic*—rise in the price of gold.
- Because the impact of this rise on the South African economy will be an even greater expansion of an already rapidly rising money supply. South African exchange controls make it almost impossible for South African money to get out. With nowhere else to go, it ends up on the stock market, pushing up *all* prices, but *especially* gold stocks, which are seen as international values.
- Because the return of inflation and rising commodity prices in general will push up the value of currencies in

countries like South Africa where most export earnings come from commodities.

• Because South African gold stock prices have indeed been knocked down and are very low in dollar terms, so for the moment there is simply nowhere else to go if you want to buy gold stocks on the cheap.

FOR LIBERTARIAN ENTREPRENEURS

The most exciting opportunity now available in South Africa is for those who wish to make money while promoting freedom.

Ciskei, one of the four independent "homelands"—recognized only by South Africa and each other—has taken a radical free-market turn, abolishing almost all regulations and taxation. (See John Blundell's article on Ciskei in the April 1985 issue of REASON.) So effective has the Ciskei "experiment" been that South Africa is reforming its own tax laws to make it much more difficult for South African citizens and businesses to utilize Ciskei as a tax haven.

Because Ciskei stayed within the South African customs union and the rand monetary area, it is *within* the exchange control barriers and tariff wall that surround South Africa. As a result, there are absolutely no economic or other barriers between Ciskei and South Africa. There aren't even any border markings.

The opportunity here is for an entrepreneur to operate from a base with effectively no tax or regulation; from a Third World cost structure; with First World management from South Africa itself; and to sell *into a First World market* where one's competitors are bound hand and foot by extensive, socialist-style regulation and a far higher cost structure compounded by very high taxes. For more information on doing business in Ciskei, contact Cecil Vanda or David Hart at the Ciskei People's Development Bank Ltd, P.O. Box 66, Bisho, Republic of Ciskei, Southern Africa. Phone (0401)92011, Telex 25-0134.

Meanwhile, I'm in the advanced planning stages of putting together a project in Ciskei, which will invest in new businesses there. It will provide the opportunity to demonstrate that freedom is the only solution that works—and that individuals like you and me can make a difference *and* make a profit. ◻

Mark Tier is editor of the Hong Kong–based investment newsletter World Money Analyst *and author of* How to Get a Second Passport *and* South Africa's Coming Revolution: Peaceful or Violent?

Snooping Sam

Big government invades your privacy. What are you doing about it? by Mark Skousen

In London, if you deposit a million dollars in a British bank, no cash transaction report will be sent to the British government. In Zurich, the Swiss government itself does not know whether a citizen has a Swiss bank account. In Montreal, there is no automatic reporting of dividends or interest to Canadian tax authorities. In Vienna, an investor can have a passbook savings account in bearer form. In Tokyo, a speculator can make a million-dollar capital gain and pay no taxes.

But in the United States of America, supposedly the land of the free, you can do none of the above—legally, anyway. Privacy has been sacrificed to the rallying cry of "full disclosure."

Most Western nations don't impose any of the disclosure requirements that the United States does. In major financial centers such as London and Zurich, there are no cash reporting requirements; no 1099s on dividends, interest, or capital gains; and no fishing expeditions conducted by the government. Virtually all stocks and bonds are held in bearer form (no owner's name is recorded and whoever holds the security receives the dividends or interest, as well as the right to trade it). If a country hasn't adopted a financial secrecy law, it has at least a *tradition* of bank secrecy. In short, confidentiality in financial affairs is a matter of common civility.

Perhaps one reason other nations have been able to maintain the old tradition of financial privacy is that they have adopted automatic tax withholding on interest and dividends. Britain withholds 30 percent on bank interest, Switzerland 35 percent. But the U.S. government has no withholding and instead opts for automatic reporting.

Under the European system, banks withhold taxes on all national accounts and send a lump-sum quarterly payment to the government without revealing the names of account holders. The same concept applies to the value added tax. The government gets its money without delving into the private lives of its citizens, who don't file returns on these off-the-top taxes. (Unfortunately, European nations also have an income tax, which is a blatant invasion of people's financial affairs.) From a privacy

point of view, if a government is going to tax, then anonymous levies such as sales taxes, customs duties, and withholding at the source are the best methods.

The Bahamas and other tax havens have adopted this approach. I lived in Nassau for two years and witnessed an incredible degree of financial privacy and freedom. If you ask Bahamians about filing an annual financial statement to the government, they don't know what you are talking about: They have never filed income tax forms in their entire lives! The Bahamas has no tax on interest, dividends, capital gains, or income. The government's main source of revenue is high customs duties—in effect, a national sales tax, since the Bahamas imports nearly everything—and administration fees from banks, corporations, and insurance companies.

But Bahamians are not the only ones who live private lives. During my stay in the Bahamas, I became acquainted with many expatriates from England, Germany, and Canada, all of whom maintained their native-country citizenship but were not required to file income tax forms to their governments. Only we Americans had to continue filling out the dreaded 1040, living in fear of an IRS audit (the IRS has agents assigned to each U.S. embassy—you don't escape when you leave the country).

The Fourth Amendment to the Constitution protects your right to be secure in your person, house, papers, and effects "against unreasonable searches and seizures." It also establishes the basic American principle of "probable cause" in any police or government investigation and requires a court warrant to conduct a search at an individual home or business.

But the Fourth Amendment might as well be torn up as far as financial privacy is concerned. The IRS, for example, audits millions of tax returns every year without any probable cause or evidence of wrongdoing. The filing of the return itself is a violation of your right to privacy in your personal papers. The IRS requires you to divulge all sorts of private details about your monetary affairs and, upon audit, demands disclosure of anything related to a tax issue—all without a court warrant.

Nor does government prying stop with the IRS. Under several sweeping laws and with the assistance of huge computers, the government is steadily moving toward a single goal: to monitor every single financial transaction.

The Bank Secrecy Act of 1970, for example, invades your right to financial confidentiality in numerous ways, all in the name of catching drug dealers and tax evaders. This act gives the Treasury secretary virtually unlimited authority to set rules on reporting of financial transactions. The government today requires institutions to report and maintain records on all kinds of financial dealings—bank account transactions, uses of credit, large cash payments, the existence of foreign bank accounts and foreign corporations and trusts, investment income, and the sales of stocks, bonds, precious metals, and real estate.

The $10,000 cash reporting requirement is another case in point. Anyone who deposits or withdraws more than $10,000 in cash at a financial institution or business is supposed to file Treasury Form 8300. Again, the object is to catch drug dealers, who frequently use large sums of cash as an anonymous way to do business. The targets have their techniques of escaping detection, while the innocent can easily get caught in the drug net.

Last year I went into a bank in Florida with $3,000 in cash to purchase traveler's checks. I was on my way to Europe for the summer. The bank teller wanted me to file a "currency transaction report" (CTR). I told her that I didn't want to be on a suspected drug dealers list, and besides, I insisted, the reporting requirement is $10,000, not $3,000. After talking to her superior, she let me buy the traveler's checks without filing the form.

But I wonder how many naive banking customers would file the form without knowing the regulations and without knowing that as a result they could be investigated for drug dealing or tax evasion without their knowledge or permission. (The IRS announced in March that it would audit individuals who filed a CTR.) Needless to say, you should avoid this kind of form at all costs—unless you enjoy being hounded by government agents. Keep all cash transactions under $10,000.

Even if you keep cash deposits under $10,000, you still can get into trouble. The Money-Laundering Control Act of 1986 makes it a felony to make several under-$10,000 deposits to avoid filing a CTR. Moreover, banks are now required to report transactions of less than $10,000 that involve people who look suspicious (they have an Italian last name or speak with a foreign accent?).

But the Treasury is not the only agency that violates your constitutional right to financial privacy. The Securities and Exchange Commission works hand in hand with the stock exchanges, searching for illegal insider trading and other "fraudulent" schemes. The exchanges cooperate with the government by monitoring "highly profitable" trades through electronic market-surveillance systems and transaction-audit trails. If private speculators make a sudden profit from individual stocks or stock options, their names are immediately turned over to the SEC for possible insider-trading violations.

Customs agents may board outgoing planes to search people at random.

So if you make a huge windfall, you may be treated as a guilty party. The SEC's action is a classic fishing expedition. Despite the admission by SEC chief John

HIDE AND SEEK: THE GAMES SAVERS PLAY

Americans are, countless articles and gurus tell us, incredible spendthrifts—and getting worse. We save about 3 percent of our disposable income, compared to almost 8 percent five years ago. Even more striking is the contrast with other industrialized nations: The Japanese save 16 percent of their disposable income, the Germans and the Swiss about 13 percent. Do savings habits have an economic cause—or are they strictly a matter of thrift and virtue?

The Germans, Swiss, and Japanese aren't more moral than Americans, argues a recent article. They're just more, shall we say, *private* about their financial affairs, specifically their interest earnings. "For the most part, they do not pay taxes on any interest earned on savings. That is often illegal but never immoral because the governments are in cahoots with the people," reports *Business Week* columnist Bruce Nussbaum.

Switzerland, he notes, exempts the first $33 of savings account interest from its automatic 35 percent withholding. So the Swiss, it seems, open enough savings accounts to keep each one's earnings under $33 a year. And this practice isn't even really illegal.

In Germany, where the exemption is $442 a year, savers "tend to forget to inform the authorities" when they make more than that, says Nussbaum. This *is* illegal, but banks aren't required to file individual account data with the government, so the tax dodging goes undetected.

The Japanese can put about $60,000 in three tax-free savings accounts. When that runs out, they commonly resort to fictitious names to stash their cash under. "In a land of tightly controlled social behavior, this widespread lawbreaking could never occur if it was not allowed by the government," writes Nussbaum.

His conclusion: It's probably no coincidence that the countries with the highest savings rates are also the ones that provide the greatest incentives—legal and illegal—for saving. Back when Americans didn't report most savings interest, before the feds cracked down, our savings rate was higher, too—more than double the paltry 2.7 percent it is now. Minding your own business seems good for business. And for the economy.

—V. I. P.

John Shad that only 1 percent of all stock transactions involve insider-trading violations, the SEC is determined to investigate anyone and everyone who makes "too much money" in the stock market. Private speculators, beware!

Also beware if you're leaving or entering the United States—neither U.S. Customs nor the Immigration and Naturalization Service recognizes your right to privacy. Under the Comprehensive Crime Control Act of 1984, Customs can open foreign mail, authorize wire taps on those suspected of transporting money overseas, or search you when you leave the country—all without a warrant. In fact, customs agents occasionally board outgoing airplanes to search randomly for cash, valuables, etc. The 1984 act also created a "paid informers program," similar to one used by the IRS.

The Tax Reform Act and the Immigration Control Act, both passed last year, will also make it much easier for the government to monitor and control people. The new tax legislation requires all dependents age five and over to have a Social Security number, in effect creating a universal "national identity card" system similar to those existing in socialist and totalitarian countries. (Australia plans to issue a national identity card which *must*—a favorite bureaucratic term—be shown in order to carry on any business transaction.)

The Immigration Act requires all new workers to provide proof of citizenship or residency—again, you can't be hired until you prove you're "legal." And employers are falling over backwards to comply. Ah, "compliance," the buzzword of the '80s for those with the "accountant mentality." Just as businesses everywhere are starting to adopt the bureaucratic nine-digit zip code!

Happily, many conscientious citizens aren't giving in to the privacy invaders and are doing everything they can to protect their wealth from excessive taxation, harassment, snooping, lawsuits, and fraud. Here are my recommendations:

- *First, maintain a low profile.* This is the cardinal rule of financial privacy. Stay away from "high profile" cars, houses, license plates, etc. Don't become a target for fraud peddlers and IRS agents.
- *Second, invest in "private," nonreportable investments that are not reported on public records in your name.* This may include gold and silver coins (purchased with cash anonymously from local coin dealers or coin shows), collectibles, and non-dividend-paying stocks (purchased through discount brokers).
- *Third, invest wisely and quietly abroad, where confidentiality is still considered a virtue.* In this regard, I have good news for the private investor. The Treasury Department has just increased the "small account exemption" on foreign financial accounts to $10,000. Now you can open a foreign bank account worth up to $10,000 and not have to report its existence to the U.S. government.

This new exemption on foreign accounts makes offshore investing more versatile, especially if done with a variety of other investment opportunities in foreign real estate, precious metals, safe deposit boxes, credit lines, or insurance products. You would be surprised how much you can invest offshore without getting involved in detailed financial reporting to the Treasury. (For people interested in more details, I've written a special report, *The Offshore Loophole: Techniques for Investing Abroad with Safety and Privacy.*) In an age of declining financial privacy, this exemption is a real breath of fresh air and a great opportunity. Don't pass it up.

Finally, every American ought to ask this: How much personal and financial freedom are we losing in the name of catching drug dealers, tax evaders, illegal aliens, and insider traders? And what are we doing about it? ◧

Mark Skousen is the editor of the monthly financial newsletter Forecasts & Strategies *and the author of* The Complete Guide to Financial Privacy *(Simon & Schuster, 1983). He is adjunct professor of economics and finance at Rollins College in Winter Park, Florida.*

By Lucy Braun

She Helps Moms Kick Welfare

On her desk is a picture of an Indian swami. On a table in the corner of her office lie a piece of crystal, a candle, a bell, and a stick of burning incense. Mantra music plays in the background.

No, she's not a tarot-card reader, a fortune teller, or a mystic. But what this dark-complexioned woman with warm, cheerful eyes does is nevertheless remarkable: she gets poor, single mothers off welfare and into the working world—permanently.

Lupe Anguiano is president of National Women's Employment and Education, Inc. (NWEE), an organization that works with businesses to secure jobs for low-income women who would otherwise depend on Aid to Families with Dependent Children (AFDC). Working within established hiring processes, she shows employers that it makes good business sense to hire these women—without government subsidies for training them. She says her placement rate is nearly twice the government's, at about one-quarter the cost.

Anguiano's fresh approach is a product of her first-hand experience working in the welfare bureaucracy, as well as her belief "that all of us were created in the likeness of God and that we were all created to be happy and successful." Raised in Saticoy, California, in a family of migrant farmworkers, she became a nun at the age of 20. She left the convent 15 years later because local church officials disapproved of her efforts at housing reform.

In 1970, the Department of Health, Education and Welfare invited her to participate in a project to improve the status of women. President Nixon's assistant for welfare reform, Daniel Patrick Moynihan, was recommending income maintenance as a welfare strategy. But "poor women," Anguiano found out, "were vehemently opposed to it. Nonprofits who make a living out of being advocates of the poor were saying they needed more welfare. The government was saying we just need to streamline and computerize and give everyone a check. The women were saying this is very dehumanizing."

Anguiano wanted a welfare policy geared toward employment, not income maintenance. But, she says, "I got nowhere with the administration and even with women's groups. Here were feminists, mostly higher-middle-class women, saying that *they* wanted to become self-sufficient, but when it came to poor women, they wanted welfare to stay."

Lupe Anguiano: *"Feminists were saying that they wanted to become self-sufficient, but when it came to poor women, they wanted welfare to stay."*

Discouraged by the icy reception to her ideas inside the Beltway, Anguiano accepted an offer to be a regional director for the U.S. Catholic Conference of Bishops, on the condition that welfare reform would be her priority issue. Taking a pay cut of nearly 50 percent, Anguiano moved into the public-housing projects in San Antonio, Texas, to see firsthand what welfare mothers experience. "That," she says with a smile, "is where all the fun started."

The women, she discovered, all wanted to get off welfare. So Anguiano designed "employment-readiness" classes to teach such subjects as personal grooming, interview techniques, and coping with job-related stress. She set up emergency funds, helped arrange child care and transportation, and provided continuing moral support. The Kiwanis and Rotary Clubs contributed money for the women's training.

In November 1973, Anguiano's first class of 50 women held a "Let's Get Off Welfare!" demonstration. After securing jobs, they marched to the welfare office and returned their checks. Within six months, 500 NWEE graduates were working.

Anguiano stresses that her program, which operates in New York, California, Texas, and several other states, does not pay employers to train welfare recipients. "When you do that, you are marketing the women as charity cases. The woman comes into the company labeled as a welfare recipient. The vision of the company is that she's not able to do anything."

Instead, Anguiano uses employers' usual hiring processes to get women into entry-level jobs ranging from customer service representative to sheet metal worker—the kinds of positions that "are open everywhere." Companies will pay for the training, Anguiano has found, "but they won't put out the money unless you're productive." So she teaches the women to do "more than their share of whatever it is they're hired to do—even if their situation isn't the best." Corporate volunteers offer assistance: for example, Chase Manhattan Bank has conducted interview workshops; New York Telephone has taught telephone techniques; and Honeywell has given advice on personal budgeting.

Daily 20-minute meditation sessions—"a must," says Anguiano—help her students steel their minds and "come to terms with the fact that the solutions for everything are really within themselves." Once in the work world, she argues, "there's just no way they're going to get back on welfare, because they're starting to buy things, they and their kids are happy, and they have more pride."

The numbers bear her out. NWEE boasts an 85 percent placement rate and an 88 percent job retention rate after one year. By contrast, the government's placement rate is 45-50 percent—at a cost of $12,000 or more per person, compared to NWEE's $2,500.

But while Lupe Anguiano is less than sanguine about the ability of the current system to solve welfare problems, her faith in individuals is boundless. She, and the women she's worked with, prove her strongest conviction: "Everyone was created to succeed in life."

Lucy Braun is assistant managing editor of REASON.

By Warren Salomon

I Have a Dream

Let us not wallow in the valley of despair, my friends. We shall overcome. We will not be satisfied until justice rolls down like waters and righteousness like a mighty stream.

I have a dream that one day, as part of a small, regional experiment, the people of my own little county will be declared exempt from the federal income tax. We few will be able to join hands and sing: "Free at last, free at last. Thank God Almighty, we are free at last!"

And we will still be defended by the United States, because even today the feds have enough revenue to support the Pentagon without the income tax. But almost all other federal "social services," those created by the New Deal and the Great Society, will be curtailed.

What would be the immediate economic impact on you, if you were among the subjects of the experiment? Well, that depends. How much income tax do you pay to the feds? $5,000? $10,000? $20,000? More? That much of your earnings would then be yours to keep—in addition to your usual "take-home" pay.

Roughly speaking, personal income would increase by 20 percent to 25 percent. Profound changes would be wrought in our community. Some residents would leave, preferring to dwell in that part of the country that still provided "normal" government services, while we, the readers of REASON, would remain to participate in the grand experiment. It would be an exhilarating time.

Because of the sudden increase in personal incomes, some spouses would elect to drop out of the work force. Many wouldn't, of course, but for the first time in their lives, they would have a choice. How many working couples have ever stopped to think that their "second income" (after taxes) is devoted almost entirely to paying the tax on the "first income"?

Savings would increase dramatically. Within a few years, you could make a substantial down payment on that home you've always wanted. Demand for houses would therefore increase, as would new construction.

Or you could save up enough to start that business you've always thought about. So would other people. There would be new jobs, new products, new services. Before long, we would notice a labor shortage, and wage rates would begin to rise.

People would come from near and far to participate in our booming economy. Poverty would largely be a thing of the past, and those who were still somehow unable to support themselves would be helped by their families, friends, or voluntary charities, generously supported by a now-prosperous population.

Welfare programs sponsored by local government could be phased out, and local taxes would be cut. The cycle of save-and-invest, grow-and-prosper would repeat itself.

The earnings from new enterprises would also be tax free, and the savings thus generated would be available to start yet another cycle of investment, and then another. We would have growth without end, compounding forever.

There would be certain dislocations. Federally assisted businesses would fold, but new institutions, relying on integrity instead of political connections, would replace them. Those who make their living preparing income tax returns would move elsewhere, or learn another trade. Social workers would find that their clientele didn't need them any more, as once-dependent souls began to thrive in their newly created jobs. Local government employees would be let go, to sink or swim in the dynamic voluntary economy.

But fear not for the bureaucrats. In a genuine boom-created labor shortage, even they would find useful work to do—if they cared to stay.

As people saw their opportunities multiplying, confidence in the future would grow. School dropouts would diminish; ambition would soar. Prosperity would sustain increased leisure. There would be a renewed emphasis on the arts, voluntarily financed by citizens, not by politicians using conscripted funds.

As word of the economic "miracle" became widespread, productive people would cross oceans to get here, just for a chance to participate in the newly emerging wonderland.

Ah, you in the back row...you have a question? "But wouldn't the rich get richer?" Of course! And the poor would get richer too.

Another question? "Who would come to a place so utterly lacking in social services?" Let me ask *you* one. Who wouldn't come?

Consider this: The four states in the United States with the fastest-growing populations are Alaska, Florida, Nevada, and Texas. Is it an accident that those four are among only seven states that impose no personal income tax?

Yes indeed, it may be far in the future, but I believe that one day we'll reach the Promised Land. Why? Because once upon a time, against all odds, the grand experiment was tried before, and it worked—just as in my dream. So it can happen again.

And where was that mythical place? My economic Camelot? Oh, not very far away, and less than four score years ago...it was called the United States of America.

Warren Salomon is an attorney and tax specialist practicing in Miami.

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Still Reading That Greasy Kid Stuff?

By Robert W. Poole, Jr.

Back in 1982, I was still dutifully reading *Time* magazine every week. Yes, I was annoyed by its incessant editorializing disguised as reporting and its tendency to belabor the obvious and glorify the trivial. But even though I was already reading several daily papers and a number of monthly magazines, I still felt the need for a weekly distillation of current events and their significance.

Then I discovered *The Economist*. The year before, this venerable British newsweekly had begun publishing an American edition and promoting it heavily. I responded to a mailed solicitation and before long I was hooked. For about a year, I kept *Time* coming (and occasionally bought *Newsweek* for yet another comparison). But it was no contest; when *Time* came up for renewal, I let it lapse.

What is it that has attracted over 100,000 loyal American readers to *The Economist* during the past four years? It certainly can't be the small type, gray pages, and absence of color photos. And there are no cover stories on Madonna, cocaine, or Cabbage Patch Kids. What sells me on *The Economist* are its values, its world view, and its writing.

Founded in 1843 by noted economist-writer Walter Bagehot, the magazine represented the full force of 19th-century classical liberalism—free minds and free markets, if you will. Its initial editorial "cause" was repeal of the Corn Laws (Britain's mercantilistic system of regulating the grain trade so as to protect farmers' incomes). The magazine today remains largely true to those values, championing not merely free markets but also individual liberties. Its editors evidently feel no need to pander to popular causes or constituencies.

The Economist's writing is clearly aimed higher than that of U.S. newsweeklies. Headlines and captions are often droll commentaries, puns, or double entendres. The magazine's 45 journalists (who, despite their lack of bylines, both report *and* write their own stories, unlike their counterparts at *Newsweek* and *Time*) all seem to have mastered the basics of economics and public-choice theory—they understand the way the world works, as in these excerpts from a January article on India's economy:

"Economic policy making in India is sometimes portrayed as a struggle between old socialist diehards and new free-marketeers who came in with Mr. Gandhi. India does not work like that. Most members of the ruling Congress party have no ideology....For them, socialism is a device for controlling the economy in the name of the people, and using that control to pursue their own ends."

Unsupported, this paragraph might be dismissed as ideological hand-waving. But the article goes on to back up this thesis with specifics: "They provide government money for regions, castes, farmers, trade unions, small industries, hand loom workers, and a multitude of others....The friends of a minister or a senior politician are given industry and import licenses so that they may line their pockets....Public enterprises are heavily overstaffed because every politician cajoles them to employ his friends and constituents."

This kind of euphemism-avoiding analysis is then used to explain what might otherwise seem an inexplicable phenomenon—the opening up of protectionist India to a wide variety of imports since 1977: "The share of government revenue accounted for by import duties has gone up from 11% in the early 1970s to 20% today. The liberal import policy has paid for the hand-outs, which is why it has remained politically acceptable."

One of the most important benefits of reading *The Economist* is getting a chance to view current events from other than a U.S.-centered perspective. A good example is last October 25's article on illegal immigration from Mexico to the United States. *The Economist*'s piece was the only article I have read that looked at the situation from the *Mexican* point of view. Going beyond official pronouncements and government statistics, it pointed out that (usually untaxed) remittances from workers in the United States to their families in Mexico represent something like $2 billion a year. That total is comparable to receipts from the two largest official dollar-earners other than oil—tourism and free-trade-zone border factories.

Reading *The Economist* can tax an American's knowledge of "English." Some of its terms are simply indecipherable unless you have lived in Britain. Others, however, are readily understandable from the context. I figured out early on that "leaders" refers to the magazine's up-front editorials, while "this newspaper" means the magazine itself. Other Britishisms—"a familiar wheese," referring to a well-worn special-pleading argument; "hived-off," meaning spun off or divested; "beavering away," meaning working diligently—have a cer-

tain charm all their own, while an occasional phrase reads quite peculiarly to Americans, "officer-cadets' passing-out ceremony," for example.

One of *The Economist*'s specialties is the "survey." Surveys are in-depth sections, up to 30 pages long, that deal with a single country or issue—international banking, for example, or West Germany—and that appear in about every third issue. These surveys often tell you far more than you'd ever want to know about the subject at hand. But when they happen to cover a subject in which you have an abiding interest, they provide a gold-mine of information. (See, for example, "Privatisation: Everybody's Doing it, Differently," a mini-survey in the December 21, 1985, issue.)

Although the magazine has no gossip or pop-culture sections, it does have an excellent Science and Technology department. And its optimistic, rationalist outlook —stemming, no doubt, from its Scottish Enlightenment ancestry—finds its way into the editorials—excuse me, the leaders—from time to time.

For example, in January 1986, in honor of the 100th anniversary of Carl Benz's first automobile patent, a leader called "The Unfinished Revolution" sang a hymn in praise of the automobile as a great force for freedom: "In the centuries before 1886, most people even in Europe and Japan never moved more than 20 miles from their homes during their lives, except when pressed into marauding armies; they therefore had to remain subservient to the squire or the banker or the feudal landlord or the biggest employer in their district....So long as the poor could commute and shop only on foot, there would never be really liberalized competition for their labour or for housewives' custom."

For all these words of praise, however, I would be remiss not to point out a few editorial blind spots. While properly skeptical of politicians and bureaucrats—even when it comes to defense projects—the magazine still takes a reflexively pro-NATO position. And for all its understanding of free markets, *The Economist* seems not to have caught up with the economics profession's rethinking of the wisdom of antitrust laws.

All in all, though, these quibbles are only nitpicks. For my money, a week just isn't complete without a regular dose of *The Economist*.

Robert W. Poole, Jr., is publisher of REASON.

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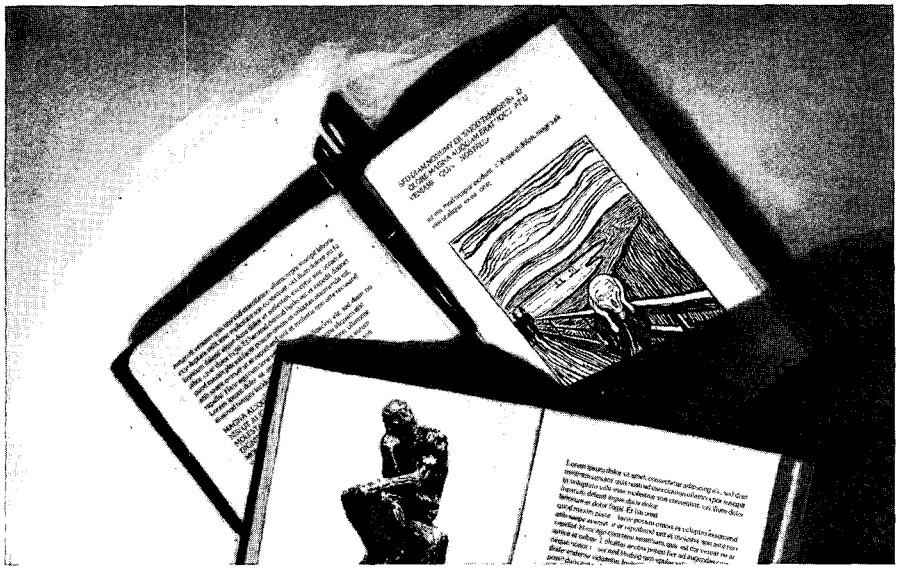
the book case

As Ye Sow, So Shall Ye Reap

By Lynn Scarlett

***Truth and Lies in Literature*, by Stephen Vizinczey**
New York: Atlantic Monthly Press, 339 pages, $16.95



Often, those who would seek enlightenment about the nature of man and the state turn to formal tracts on political philosophy, where they end their search. Here they will find some brilliant insights, but they will miss the rich contributions of literature. Literature, after all, "depicts how things fit together in the world." That is Stephen Vizinczey's underlying thesis in *Truth and Lies in Literature*, and it is against this yardstick that he measures the works of Stendhal, Balzac, Rousseau, Tolstoy, Shakespeare, Melville, and others.

The result is stunning. In drawing out the truths (and lies) about reality set forth in literature (he tackles some nonfiction in the process), Vizinczey, himself a novelist, imparts more about man and state than a library of scholarly tomes. What's more, he says it well. When he is repulsed by a deceitful, nasty novel, the reader too feels repugnance. And when he passionately praises an author, the reader wants to read the source of Vizinczey's inspiration.

Vizinczey, a Hungarian émigré, left his country in 1956 when it became clear that the Soviet Union would not tolerate a recalcitrant satellite. No stranger to the tyrannies of political authority, he early on discovered that Communist Party functionaries had little taste for truth in literature.

Western critics of communism don't hesitate to underline this point, often with a great deal of self-righteousness. But Vizinczey learned something more subtle, and ultimately more important. "We had," he writes, "outright political censorship but at least there was no pretence that literature only had to do with literature." This insight is largely behind his persistent search for political and social truths in literature. It also inspires his ire when he spots literature's lies.

The lies that most enrage Vizinczey are those that depict people as unaccountable for their actions, victims of circumstances who have no choice. "Such falsehoods are tranquillizers that deaden the spirit. This is proved by the depressing books which are based on the notion of victimized humanity, even if they are written by such gifted writers as Kafka. Kafka's K (in *The Trial*) has no choice but to submit to his executioners and hand them back the knife to kill him with; his spirit has been destroyed by the system. But such images are the daydreams of would-be Hitlers and the nightmares of the weak, and have very little to do with real life. In real life there is no power which could inescapably prevail over our vitality and love....We are not master of our fate, but we are free to choose what meaning we give to our life and our death."

Exemplary of the lie that people are not responsible for their actions, says Vizinczey, is *The Death of My Brother Abel*, by Gregor von Rezzori. In this modern, highly praised German novel on the Holocaust, Rezzori writes that the crimes of the Nazi regime "put an end to any further attempts at distinguishing between good and evil. ...There were no murderers any more and no victims."

Vizinczey lashes out against this clever attempt to do away with individual responsibility for the Holocaust. "Rezzori's novel is both mindless and devious," he observes, "as indeed it has to be in order to persuade his readers that there is no way to tell the difference between good and evil. This is the ultimate defense of all evil acts, but the truth is that we not only can tell the difference, we do so *instinctively*."

Just as lies in literature are the foundations of tyranny, truths in literature are liberating. Heinrich Kleist, seeming on the surface to depict a world as tragic as Kafka's, in fact is not depressing because, notes Vizinczey, "his works are lit up by choices." In Shakespeare, Stendhal, Balzac, Tolstoy, and even Sartre (notwithstanding his socialist rhetoric), Vizinczey identifies the source of their genius flowing from their depictions of people in action, making choices, suffering consequences.

Vizinczey is not caught up in an ideological web. Thus he sees that Sartre, al-

GWYN STRAMLER

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Would you like to stake a share of the $25,000,000,000 the government holds for just making a few phone calls and looking in some phone books? That is all you have to do to enjoy thousands of dollars. If you can read English and can speak on the phone, you can make thousands of dollars overnight—and you don't have to do any selling at all.

This ad will explain every detail of an exciting new business that has never been advertised or attempted before—what's more, you can enter with absolutely no money.

Life was not always rosy for me. I got involved in a bad business investment a few years ago and lost about $11,000. Everything I owned was taken away from me. I needed money desperately to feed my family, so I was forced to toil as a waiter at the Sheraton Harbor Island Hotel in San Diego by night, and I was a filing clerk during the day. It was so exhausting, that as soon as I got home, I would sleep for just a few hours, wake up in a stupor, drink four cups of coffee, and then scramble to my next job. I had no choice. It was the only thing I could do to stop disappointing my loved ones. I remember coming home on Mother's Day really eager to call my mother, only to find that my phone had been disconnected. I went through the mail praying for some good news, only to find an envelope with no return address—it contained an eviction notice. At this point I thought we would have to live in our beat-up Fiat. We were fortunate to have relatives that were kind enough to let us stay with them. I never knew life could be so miserable. I sat down on the sidewalk just realizing how much being in debt could hurt. With tears in my eyes, I prayed for a way out.

My friend Gary, who was in the same financial boat as I was told me a story that changed my life forever. He told me very excitedly, "I received a funny-looking letter. When I first saw it, I thought it was another creditor making a claim on me. The letter told me about money that was rightfully mine—it said that if I signed the enclosed form, I would receive $2,592.59. Things were so bad that I had nothing to lose, so I signed the form neatly and returned it to the company.

"Ten days later I received a check for $2,592.59 with an explanation. A distant aunt had died and left $4,320.98 in her savings account. The company that found me collected $1,728.39. The firm had no trouble finding out that I was related to her. Just for matching up people with the same last names, that agency was making millions every year."

It was just then that an amazing idea popped into my mind. I was overcome with excitement; this revolutionary system was so simple, yet I knew it would take me out of my rut. I was compelled to find out more about it. I had lost everything I owned; what else could I lose? I found out everything I could and began to work on a plan. I put it into effect. My prayers were heard. To my relief I started to make more money than I have ever seen in my life for doing practically nothing. **In fact, my income for just last month was $50,076.78.**

Testimonials

I have been able to locate and notify 421 claimants (worth $20,197,323.97 in claims). I was even contacted by a Texas ranger that thought I was running a scam. Later when the ranger understood what I was doing he told me I could use him for a reference. I have made over $300,000 since I last wrote you Dave.
Herb H., TX

Due to the methods in your book I was able to secure $16,212 with the help of my brother. I had to get my 16 year old brother to help me because I am under age. I am 15 years old and have been traveling to Miami, Jamaica, St. Croix, New York. I'll be going to England very soon and L.A. Thank you for helping me make money with your system.
Andre I., CT

I've spent at least $7,000 on money-making books and seminars. The difference between them and your method is that yours works! In less than three weeks (part time) I was able to secure $52,614.21. Thanks for a business that will easily make me $100,000 this year. If I can ever be of service just call.
Steve S., CO

Having read your book, I have recently launched into the fascinating endeavor of locating people. As a result, I have succeeded in finding an individual with a fairly large sum of money.
Ben S., CA

Thank you so much for the methods outlined in your book. I was able to secure $24,685 in just six hours of work. I have read just about all the other "get rich" books but yours has to be the best.
Terrie, T., MI

I had a C-minus average in high school—one year, I received an F in English. By no means was I ever considered to have the smarts. But I did it. All you have to do to make large amounts of money is thumb through phone books and make a few phone calls.

Last summer we moved into a gorgeous home. My wife told me it was her life long dream to own a brand new car. You should have seen her tears of joy when I surprised her with her own new $20,000 car. Later I bought a 1986 Mercedes 560SL that cost me $56,000.

The amount of money I was making was incredible. Just as a hedge against taxes, I bought two three bedroom houses valued at $200,000.

Twenty-five billion is just sitting there waiting for someone to recover it. One out of ten Americans have forgotten or lost money in bank accounts, stocks, insurance premiums, etc. I will disclose a plan to you that will show you how to get your hands on this money.

Only 10 percent of the rightful owners claim their share of the $25 billion. The states make no strong effort to contact the rightful owners. Why should they, when unclaimed property is their biggest source of revenue, second only to taxes? The states are required by law to make a list of unclaimed owners. These lists are hard to find but I will show you how to get every one that the states publish. And in some cases, they're free.

Let me give you a random sample list from the state of Wisconsin. (Addresses are included in lists.)

Owner's Name	Property	Amount
Drinka, Teresa, A	Savings	$10,891.47
Lavelle, Samuel	Stock Proceeds	$21,529.61
McDonnell, Martha	Savings	$12,843.78
Meyer, Thusneida	Savings	$18,489.18
Patterson, Arthur	Savings	$14,629.24
Stien, George	Savings	$57,525.83

This listing is only a minor portion of the $25 billion in unclaimed property that is waiting for you.

To make thousands of dollars, all you need are telephone books and a phone. The proven system in this book can be learned in a half hour. After that, you are all set. **If you can read English and can speak on the phone, you're in business. It's as easy as that.**

Sample Proof

Bonnie Goldstein, a well-known syndicated newspaper writer who doesn't know anything about finding people, located the owners of $4,100 in two and a half hours with two telephone directories—she said so in the *San Francisco Sunday Examiner & Chronicle.*

My Guarantee

Send for my complete guide to recovering unclaimed money. Read the simple formula that has been tailored for each individual state. Sit down and make the required few phone alls and directory searches. ***After following the simple formula, you must be able to recover $10,000 in one day*** or your complete payment will be returned to you.

This opportunity can give you a new home, car and all of the luxuries money has to offer. There is a definite flaw in our revenue system, and you can profit from it.

David Bendah (619) 265-8777
6602 El Cajon Blvd., Suite B, Dept. **508G**
San Diego, CA 92115

Dear Dave:

Send me your complete guide to recovering $25,000,000,000 in unclaimed money on the condition that I must be able to locate $10,000 easily in one day with your book or you will return my entire payment.

On that basis, here is my $10.

Name_____

Address _____

City _____ **State**____ **Zip**____

Please add $1 dollar to cover part of the shipping costs. All checks must be accepted by TeleCheck; payments not accepted will be returned in full.

though a collectivist in politics, nonetheless unveiled in his literature a world steeped in individual choice. Indeed, his existentialism rests on the notion that "we are free to change ourselves even if we cannot change our circumstances." Writes Vizinczey, "You can't read Sartre and believe in determinism, which is the foundation of communist ideology and all totalitarian regimes. Tyranny feeds on the notion that you have no choice and must act the way you have to." By contrast, Vizinczey annihilates the work of Andre Malraux, author of *Man's Fate*, not for his espousal of leftist political views but for his horror of individuality—even his own: "this persistent flight from the self destroys a man, leaving him nothing but the craving to be loved and the worship of power."

Implicit in this comment about Malraux lies one of Vizinczey's most penetrating reflections, on the way emotions and intellect interact one upon the other. He probes the limits of cognitive rationalism, both as a means of influence on others and as a wellspring of knowledge. "We all remake the world in the image of our feelings," he remarks. "Facts are rarely obscure; our problem is to detect their relevance; their *meaning*."

For Vizinczey, Stendhal epitomizes this appreciation of the emotional dimension of our ideas. He "analyzes how our beliefs and opinions are formed by our psychological needs, how we reason to distort reality by accepting, rejecting, or trusting the facts of life to fit our inclinations."

Vizinczey's own clarity on the interrelationship of feelings and ideas leads him to insights about others' actions. Reviewing a book on Robert Kennedy, he describes Kennedy's upbringing in a puritanical Catholic family "opposed to emotionalism" and with a rigid code of justice. Patriarch Joseph Kennedy, writes Vizinczey, "emerges from this book as a loving bully...who had made it and thought he had the answers to all the problems of life." Under this regime, Vizinczey concludes, capturing the essence of modern welfare liberalism: "It becomes obvious how both John and Robert Kennedy came to react passionately against misery, oppression and corruption while at the same time remaining strangely insensitive to the rights and feelings of individuals. Indeed, how could Rose's children learn anything much about personal liberty under the rule of Joseph Kennedy."

The ultrarationalist view of man such as that advanced by the architects of the French Revolution and rejected by Vizinczey lies at the root of the modern fascination with planning. Of this fascination with planning he writes: "As both capitalist and communist states—not to mention the technological world—have evolved under the illusion that man purposefully built them, ideological optimism seeps into every niche of our lives....Mass culture [fosters] the belief that...if we only calculate things correctly, if we only do the right thing, then the future must yield the desired results."

Vizinczey here illuminates essentially the same fallacies about planning plumbed by F. A. Hayek in his celebrated discussions of the limits of knowledge and the rise of spontaneous order. Vizinczey repeatedly explores this theme. Kleist shows "the ultimate incomprehensibility of things, or rather, the deficiency of human understanding." Dostoevsky's ministerial bureaucrats "in all their well-intentioned plans for Russia...fail to take into account the incapacities and personal ambitions of the subordinates on whom they depend for the execution of their orders, and expect millions of people with independent wills to pay more attention to decrees and regulations than to their own needs." In Tolstoy's works, "men who try to shape society appear as absurd as if they were trying to shape the waves of the sea."

A hundred years before Nobel laureate James Buchanan won acclaim for his public-choice theories, Stendhal was describing how personal interests shaped the actions of bureaucrats. Nowhere is Stendhal's thesis more evident than in his character Lucien Leuwen. Vizinczey comments, "Having found that 'men nearly always lie when they talk about the motives of their actions,' [Leuwen] does not accept the most boring and widely shared pretence about public affairs: namely, that political acts are committed for political reasons—in the public interest."

Individualist to the core, Vizinczey denounces those who would presume to know his and others' interests. He rails against dictatorship as "a constant lecture instructing you that your feelings, your thoughts and desires are of no account, that you are a nobody and must live as you are told by other people who desire and think for you."

Truth and Lies in Literature transports the reader on an intellectual and emotional odyssey. The gut and grit of individualism springs forth lustily. Vizinczey does not see the world through rose-colored glasses, yet his world is one of optimism. It is optimistic because his world is peopled with individuals whose intrinsic worth does matter. He shows that even in the most vicious circumstances we do have choices—choices that mold our character, and ultimately, "we're rich or poor, defeated or victorious only in the way we feel about ourselves, and therefore nothing is worth so much as this feeling, the only thing we truly possess."

Lynn Scarlett is REASON's book review editor.

To Secure the Blessings of Liberty

By Stephen Macedo

No State Shall Abridge: The Fourteenth Amendment and the Bill of Rights
By Michael Kent Curtis, Durham, N.C.: Duke University Press, 275 pages, $24.95

"Who controls the past controls the future, who controls the present controls the past." So spoke George Orwell's commissar in *Nineteen Eighty-Four*, in words that seem all too prophetic. Every party has its own version of the past. And so political history seems to become a pliable instrument ready to conform, with unnerving regularity, to the shape required by the political demands of the present.

Nowhere is the plasticity of political history more apparent, or more troubling, than in the field of constitutional law. Constitutional interpreters of all political stripes repair to the "intentions of the framers." But from this apparent agreement on procedure comes, not agreement about the Constitution's meaning, but a diffusion of stories about the past.

Michael Kent Curtis's *No State Shall Abridge* illustrates two very important points about contemporary debates over the Constitution's history. First, it shows that establishing the intentions of the framers of a constitutional amendment requires exam-

ination of a broad historical and political context. And second, its limitations as a work only of history show that, no matter how good our history is, constitutional interpreters cannot live by history alone.

Curtis, an attorney with a number of law journal articles to his credit, takes as his object of attack those conservatives who invoke history on behalf of their efforts to narrow judicial protections for individual rights. Attorney General Edwin Meese is, of course, the prime contemporary example. As Meese put it in an address to the Bar Association in Washington in 1985: "It has been and will continue to be the policy of this administration to press for a Jurisprudence of Original Intention. In the cases we file, and those we join as *amicus*, we will endeavor to resurrect the original meaning of constitutional provisions and statutes as the only reliable guide for judgment."

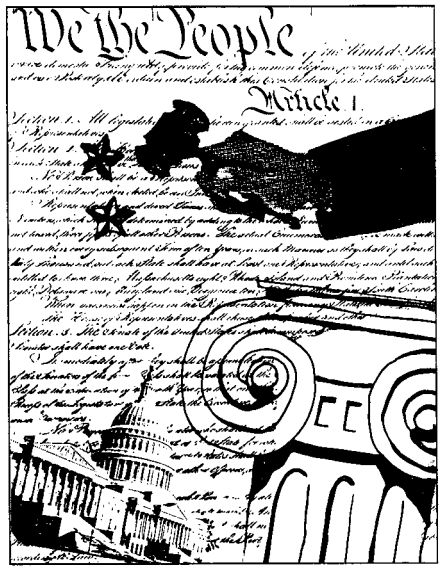
Curtis specifically takes issue with the claims of conservative scholars (Raoul Berger being the most prominent) who argue that the framers of the 14th Amendment intended only to secure certain basic equalities for freed slaves and other blacks. To the contrary, Curtis argues, the 14th Amendment was intended to protect a broad array of individual rights, the core of which are found in the Bill of Rights itself. If Curtis is right, the New Right's Jurisprudence of Original Intent justifies liberal activism.

It is hardly surprising that an enormous amount of energy has gone into determining what the framers of the 14th Amendment meant by the portentous but elusive phrases of section 1: "No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws."

Did those who crafted that amendment intend, as Curtis claims, to "totally incorporate" the protections of the Bill of Rights and apply them to the states? Did they intend to partially incorporate? Or did they intend, as many conservatives claim, not to incorporate at all but only to secure a few basic rights for the formerly enslaved race? (According to Raoul Berger, 14th Amendment protections do not even reach the issues of suffrage and segregation.)

The vehicle by which the framers of the 14th Amendment intended to apply the protections of the Bill of Rights against the states was, according to Curtis, not the oft-debated due process and equal protection clauses but the privileges or immunities clause. His case is a strong one.

On its face, the clause does seem to say that states must respect the protections guaranteed citizens against the national government, and Curtis provides considerable evidence to show that this was in fact the understanding of those who framed and debated the amendment. But most importantly, Curtis argues that opponents of "total incorporation" have misinterpreted the 14th Amendment by misunderstanding the relevant historical context of the amendment. It is the central claim of Curtis's book that the 14th Amendment must be seen as the child, not simply of the 39th Congress, but of a political movement that began decades



before the Civil War and only culminated in the 13th, 14th, and 15th amendments to the Constitution.

In the decades leading up to and including the Civil War, more and more Republicans in Congress and across the country developed moral complaints and broad fears about the institution of slavery. At first only the radicals, but eventually a broad range of Republicans, came to believe in the basic moral equality of blacks. They came to fear, moreover, that the institution of slavery threatened not just to perpetuate slavery but to undermine the constitutional rights of the whole society. Having witnessed the banning of abolitionist literature, the breakup of abolitionist meetings, and the denial of the rights of free speech and freedom of movement, all in the name of preserving slavery, Republicans came to regard the crusade against slavery as a crusade on behalf of a broad array of civil rights for society as a whole.

It is against this background of concern with a broad range of civil liberties that, according to Curtis, the intentions of the framers of the 14th Amendment must be interpreted. We must look, in effect, not just to the *legislative* history of the amendment, but to its *political* history. Curtis constructs a broader interpretive background than that deployed by the conservatives. At the same time, he rejects Berger's reading of the legislative history, challenging the latter's use of relevant evidence at many points. Curtis's arguments are generally convincing and well stated. But this is, no doubt, a debate that will continue to flourish.

One problem with Curtis's account is that it sometimes suggests that history is an adequate guide to constitutional interpretation. He seems to say that the judicial interpretation of the Constitution properly draws on the text and history of the Constitution but not on the sorts of moral aspirations that Abraham Lincoln invoked to deny the correctness of the Supreme Court's *Dred Scott* decision, which held that a slave's residence in free territory did not make him free and that Congress had no right to prohibit slavery in U.S. territories. And yet, Curtis also recognizes that many of the Republicans whose intentions he is seeking to recapture would themselves have denied the ultimate interpretive authority of historical intentions (the same, indeed, might be said about the Founders). As a consequence, Curtis's historicist project has a paradoxical quality.

His historicism is broader and deeper than that of conservatives like Raoul Berger, but it is still historicism. In paying homage to the specific intentions of the framers, historicism denies the moral aspirations of the constitutional project the framers gave us. We would do far better to interpret the Constitution in light of the moral ends toward which the Constitution itself, as it declares in the preamble, aspires: ends including justice and the "blessings of liberty."

A principled judicial activism would, I believe, be preferable to even the best historicism. Constitutional interpretation should be grounded in our best interpretation of the moral principles explicit and implicit in the Constitution's text and struc-

ture. Principled interpretation has the great advantage of not being held hostage to particular intentions not actually written into our basic law.

Suppose it is true that the framers of the 14th Amendment specifically intended not to desegregate public schools (it seems clear they did not). Why should we be guided by that specific, unstated intention? What the 14th Amendment says is that no state shall deny any person equal protection of the laws—it is left to *us* to determine what that entails. Suppose it could be shown that everyone connected with the passage of the 14th Amendment specifically intended, though they did not say so, to leave states free to discriminate against homosexuals. Should we then deny that privacy rights extended to heterosexual couples apply also to gay people?

Historicism binds us to intentions of which the framers themselves were not sufficiently confident to write into the Constitution. Historicism prevents us from interpreting the document in the light of the broad ends announced in the preamble; it prevents us from vindicating the Constitution's moral authority in the course of interpreting and applying its broad phrases. A principled activism would ask, instead, What is the morally best interpretation of these broad phrases consistent with the text and structure of the document as a whole? (For a more extended defense of principled judicial activism, see my book, *The New Right v. the Constitution*, Cato Institute, 1986).

For the most part, however, Curtis argues that history is only one court of appeal among others for constitutional interpreters, that history is only "one source of legitimacy." And so he seems to realize that while telling a story about the past may help to legitimize a constitutional decision by grounding it in a community's practices, such a story cannot, by itself, really *justify* a decision. Our history, after all, is morally checkered: it includes practices of racism and other forms of injustice. The task of the constitutional interpreter is to distill a valuable *tradition* from a checkered *history* and in doing so to show why the Constitution is worth supporting as supreme law.

But these criticisms should not be overdone. Michael Kent Curtis has made an important contribution to a historical debate of great significance. By performing his task in a careful, measured, and judicious way, he has helped to show that history can be more than mere partisanship. And by displaying the weak historical foundations of the New Right's jurisprudence, *No State Shall Abridge* helps clear the path toward a better understanding of what the Constitution stands for.

Stephen Macedo is a professor of government at Harvard University and the author of The New Right v. the Constitution.

Beyond the Bliss of Equilibrium

By Israel M. Kirzner

Rival Views of Market Society and Other Recent Essays, by Albert O. Hirschman
New York: Viking, 197 pages, $18.95

Albert Hirschman is well known as one of the pioneers of development economics. His 1958 book, *The Strategy of Economic Development,* is widely regarded as a classic in this field. But a number of his recent books have demonstrated Hirschman's deep interest in the history of ideas, particularly in the history of economics and other social sciences. *Rival Views of Market Society and Other Recent Essays* is a volume of recent writings by this senior scholar: Hirschman tells us in the preface that his favorite working title for this collection is "Last Essays, Volume One."

The collection reflects both of the intellectual interests of its author. A number of the pieces deal retrospectively with the emergence of Hirschman's own principal ideas in development economics. The two essays making up part two of the book (and including the essay that provided the title to the volume) deal with the history of ideas and with Hirschman's own reflections on the limitations of conventional economic theory.

The general reader, especially one concerned with understanding the economics of a free society, is likely to be more interested in Hirschman's broader observations on the nature of economics and the social sciences. Yet it's plausible to argue that it is his reservations about standard economic theory that have given character to his ideas on economic development (besides having helped shape his interest in the history of the social sciences.)

Readers who understand the benefits of market processes are likely to be disappointed in the book. These readers are likely to share at least some of Hirschman's reservations regarding conventional economics but will probably believe (as does this reviewer) that he has drawn the wrong lessons from his well-founded criticisms of mainstream economics. While this disappointment need not diminish one's admiration for Hirschman's lively and ingenious explorations in intellectual history, it should alert us to certain limitations that circumscribe his perspective.

The trap into which Hirschman has fallen is the common one of believing that both the core of economics and the case for a market economy rest entirely on the properties of the narrow neoclassical model of economy-wide competitive equilibrium, that hypothetical state of economic bliss where prices have precisely coordinated what is brought to market by producers and purchased there by consumers. Hirschman's own rich observations of both developed and developing economies taught him at the outset of his career to be wholesomely and profoundly skeptical of attempts to mechanically deploy this competitive-equilibrium model to address complex cultural and economic conditions of real-world economies. Pursuing the implications of this healthy skepticism, Hirschman was led early in his professional life to react negatively against what he calls "the visiting-economist syndrome; that is, against the habit of issuing peremptory advice and prescription by calling on universally valid economic principles and remedies...after a strictly minimal acquaintance with the 'patient.' "

This healthy disdain for the self-deluded expert who naively believes himself uniquely equipped by his graduate school training to engineer "balanced" economic growth for developing economies led Hirschman to appreciate the possibly stimulating effects of strategic imbalances, of disequilibrium states of affairs. It was this appreciation that nourished Hirschman's special contributions to development economics.

But the reader who has learned his lessons from Austrian economics—Hirschman

does not appear to have heard anything at all about this school of thought—will immediately recognize that in focusing on the unrealism of equilibrium models, on the fatuity of working with models in which all relevant resources are assumed already known, and on the possibly stimulating effects of disequilibrium conditions, we are very close to what in fact constitutes the true case in economic theory for a free-market economy. That case does *not* rest on the balanced aesthetics of equilibrium conditions. Rather, it rests on the vigorous, dynamically competitive process initiated by entrepreneurial exploitation of the opportunities offered by disequilibrium states of affairs. In this process it is the attractive force of pure profit opportunities that inspires the imagination of entrepreneurs to discover new resources and production imbalances calling out for correction.

Moreover, appreciation of the central role in economic understanding played by this competitive-entrepreneurial discovery process might tend to soften, surely, Hirschman's unhappiness with the narrow boundaries that economic theorists have imposed on their discipline. A pervasive theme in this volume is the arbitrariness and artificiality that Hirschman sees in these erected boundaries—and the consequent hazards of blindly applying such narrowly conceived economic models to the complex social realities that make up the world outside theoretical journals. And Hirschman devotes an entire essay, "Against Parsimony," elegantly arguing for "complicating" the theory of choice. This would include recognizing the role of "metapreferences" (referring to man's deliberations concerning what he should concretely prefer), the role of ("noninstrumental") activities the utility of which is not wholly a function of their outcomes, and the subtle intricacies that are immediately introduced once awareness of benevolence is permitted into the analytical field of vision.

In pursuing these perceptive insights into significant aspects of choices made in society, Hirschman is following the long tradition of historical and institutionalist critics of economic theory. But there is a difference. Those critics were wrong in believing that their insights, perceptive though they might have been, invalidated the explanatory framework developed by economic theory. That framework was general enough to be able, in principle, to incorporate their insights. At the same time, it was the outstanding merit of economic theory to point to explanations that would hardly leap to the eye were it not possible to abstract, at least temporarily, from the "complications" introduced by these institutionalist critics.

Hirschman's crusade against theoretical "parsimony," on the other hand, seems inspired not by a sense of invalidity in the positive core of economics but by his skepticism of directly *using* economic theory to formulate concrete, activist, economic policy. But in this line of criticism, we may all heartily concur.

It is one thing to argue, on the basis of abstract economic reasoning, that a free market is likely to promote the fulfillment of human preferences most effectively; it is quite another thing to use that same economic reasoning to fashion a five-year development plan for a particular economy in utter disregard of the history and culture of that economy. The second of these two uses of economic reasoning is properly subject to Hirschman's strictures, but the first is much less vulnerable. Once it is understood that the case for giving the market free rein rests on its ability to *inspire discovery* of relevant preferences and relevant production possibilities, rather than on any particular pattern of equilibrium resource allocation mapped out in theory, the limited realism of economists' models becomes of much lesser concern.

In other words, Hirschman's dissenting ideas, both on economic theory and on development policy, have been justifiably provoked by mainstream misapplication of economic reasoning. One's sympathies with Hirschman's dissatisfactions would, however, be stronger if he had more carefully considered how much of traditional economics can be salvaged when the fashionable misapplications are avoided. As it is, one can warmly admire Hirschman's wide reading in current and earlier social science, one can appreciate the urbane scholarship with which he delves into intellectual history—and yet regret the presence of a certain "blind spot" in Hirschman's field of vision. What this blind spot has obscured, it may be submitted, is an appreciation for the character of dynamic, spontaneous market *processes* and for the long tradition in economic literature in which such processes have been explicated.

Israel Kirzner is a professor of economics at New York University and the author of Discovery and the Capitalist Process, *among other works.*

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viewpoint

By Edward H. Crane

Max Headroom for President

As the air was rapidly escaping from Gary Hart's presidential balloon in May, liberal *Washington Post* columnist Mark Shields took Hart to task for letting down his headquarters staff, many of whom, he said, had "sacrificed" by giving up their jobs to join the campaign. The *Post* does have a proclivity of looking at politics from the perspective of a high school civics text, but even so, Shields's comment struck me as remarkably naive.

Could there possibly be any purpose in "sacrificing" for a Gary Hart other than the hope that this frontrunner would be the next president of the United States and therefore the source of jobs, power, and prestige? It seems unlikely. Hart, for all his idiosyncracies, was the archetype of the media-inspired ideological neuter. At the press conference where he made his petulant withdrawal statement, Hart called himself an "idealist" and urged his young supporters on to "public service and national service" because "the torch of idealism burns bright in your hearts."

But what kind of idealism directs young people to strive to become government bureaucrats? Gary Hart was pictured by the media (and himself) as a "crusader." But he was a crusader without a cause. The pictures of campaign staff workers tearfully offering condolences to one another reflected not the demise of an ideological movement but the cold recognition that they'd bet on a horse (the favorite, to boot) that was not going to win the race to cushy jobs in Washington.

Pardon me if my cynicism is showing, but as of this writing there are seven announced candidates seeking the Democratic nomination and five more giving "serious consideration" to throwing their hats in the ring. Seven hats, twelve hats, it doesn't make any difference. Pick a hat, any hat. They're all the same.

To be sure, the keen eye might spot some distinctions. Hart at least paid lip service to free trade. Jesse Jackson leads an all-black Rainbow Coalition. Richard Gephardt lusts after the shrinking labor union vote. Bruce Babbitt has set a record for early television advertising in Iowa. And so on.

But why split hairs? The distinctive characteristic of all these Democrats is their *sameness*. They are all liberals, but not leftists. They no longer use the phrase, but they are all advocates of industrial policy—the current euphemism being "competitiveness." They all believe taxes must be increased and that Ronald Reagan has cut the federal budget to the bone. And most importantly, they all eschew any association with political principles, which is to say, ideology. They are pragmatists and proud of it.

What this all adds up to is a lack of vision. It's hard to imagine any of the current crop of Democrats stirring the emotions of anyone other than special interests and their own staffs. And that strikes me as peculiar, because if there is anything the Democrats should have learned from their presidential debacles in 1980 and 1984, it is that a candidate who can project a sense of vision appeals to Americans more than one who can not.

The great achievement of Ronald Reagan, in fact, was in making ideology once again respectable in American politics. He talked about liberty, about individual rights, about how the Founders established certain principles that need to be followed to maintain a free and prosperous society. And Americans responded—with enthusiasm. I have maintained for years that Reagan is a greatly underappreciated actor, and the question of how much of his stirring speeches he understood is debatable. Certainly, little or nothing has come out of his six-and-a-half years as president to indicate that he either understood or cared about the principles of which he so eloquently spoke.

Nevertheless, those principles *did* strike a responsive chord among the electorate. So why haven't the Democrats taken the hint? Good question. Here's an even better one: Why haven't the Republicans? Talk about eschewing principles. The three leading Republicans seeking the nomination are, of course, Vice President George Bush, Sen. Bob Dole, and Rep. Jack Kemp. When Bush tries to look forceful and sound like he really believes something, it's painful to behold.

As for Dole, at least he *admits* he has no principles. In a recent *Wall Street Journal* interview he made it clear that he disdains political philosophy and grates at the Reagan legacy that requires him to possess a vision for America. His interest, he said, is to "get things done" but, well, sure he had a vision, sort of. He then listed three federal welfare programs.

Kemp, who seems obsessed with attacking Peter Ferrara's plan to allow young people to opt out of Social Security (it's "antifamily"), has rather candidly made his peace with big government: " 'Getting the government off the backs of the American people' will be no one's slogan in 1988," he told the *Wall Street Journal* recently. "I've never understood why conservatives positioned themselves against government."

The crisis in American politics is real. Political principles are passé; we've come to the New Age: Max Headroom for president. The panderers of pragmatism running for president today will do nothing to stem the tide of statism in America. They endorse the status quo—indeed, they embrace it. The problem is that the status quo is not a set of programs. It is a process. And that process is bound to devour our prosperity and extinguish our liberties.

Edward H. Crane is president of the Cato Institute in Washington, D.C.

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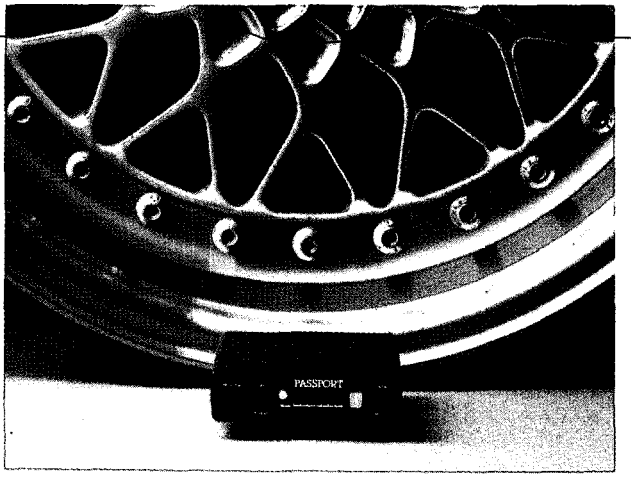

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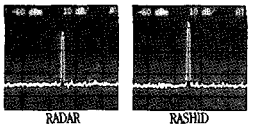

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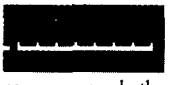

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